

REAL ESTATE INVESTMENT IN TAIWAN  
- AN EXAMINATION OF THE RECENT OPENING  
OF REAL ESTATE MARKETS TO FOREIGN ENTITIES

by

Jason Lee

B.S., Design and Environmental Analysis, 1995

Cornell University

Submitted to the Department of Architecture in Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

September, 2001

© 2001 Jason Lee  
All rights reserved

The author hereby grants to MIT permission to reproduce and to distribute publicly paper and  
electronic copies of this thesis document in whole or in part.

Signature of Author \_\_\_\_\_

Department of Architecture  
August 3, 2001

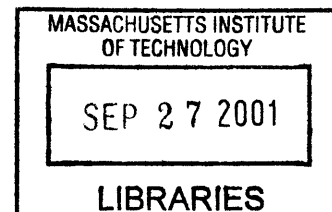
Certified by \_\_\_\_\_

Alice H. Amsden  
Ellen Swallow Richards Professor of Political Economy  
Department of Urban Studies and Planning  
Thesis Supervisor

Accepted by \_\_\_\_\_

William C. Wheaton  
Chairman, Interdepartmental Degree Program in  
Real Estate Development

ROTCH



REAL ESTATE INVESTMENT IN TAIWAN  
- AN EXAMINATION OF THE RECENT OPENING  
OF REAL ESTATE MARKETS TO FOREIGN ENTITIES

by

Jason Lee

Submitted to the Department of Architecture  
on August 3, 2001 in partial fulfillment of the requirements  
for the Degree of Master of Science in  
Real Estate Development

**ABSTRACT**

In hope to revitalize the slumping real estate markets and sluggish economy, the government of Taiwan, Republic of China, has recently opened up direct real estate investment opportunities to foreign entities. In conjunction with the joining of WTO, Taiwan hopes that foreign funds and maybe even investment from Mainland China will infuse capital and uplift the markets.

Nevertheless, the potential impacts to the real estate industries have not yet been fully examined. Several professionals and academia suggested that the projected effects of direct investment into Taiwan's real estate markets will not seem to be as optimistic as how the government has hoped for. Political uncertainties, slow market growth, low transparency, oversupply of products, and different real estate valuation expectations will prohibit bullish direct investment activities. The net result is complicated. A closer look shows that foreign capital will create a short-term turbulence in the real estate markets and further exaggerate value discrepancies between market sectors and geographical locations.

As the formation of AMCs (Asset Management Corporations) will consolidate NPL's and thus further depress market value, the deeply discounted high quality properties in different regions, the possibility of securitizing real estate assets, and the continuing of general foreign business development will attract real estate investment opportunities into different product sectors and locations, and thus create value disparities. Long run effects will depend on the island's political and economic situations. Overall, as Taiwan is preparing to enter the WTO, the opening of real estate industries to the international marketplace will standardize valuation methods, reorganize industry structure and make the markets more transparent.

Thesis Supervisor: Alice H. Amsden

Title: Ellen Swallow Richards Professor of Political Economy  
Department of Urban Studies and Planning

## ACKNOWLEDGMENTS

This thesis could not have been completed without the encouragement and assistance from many individuals. My most profound gratitude is to my family, to whom this thesis is dedicated. My mom and dad have given me full and unconditional support throughout the year. My late grandparents taught me to be strong and gave me the courage to fight through difficult times. Also, I want to especially thank my most gracious sister Connie, for her encouragement and uncompromising support.

I am most grateful to all the individuals whom I have interviewed. My special thanks go to Mr. Calvin Wang, President of Jones Lang LaSalle Taiwan, Ms. Shu-Chung Lee of China Development Industrial Bank, Mr. Philip Chen of Cathay Life Ltd., and Dr. Jenn-Hwa Tu of National Taiwan University for their up most generous assistance.

My deepest gratitude is to my thesis advisor, Dr. Alice Amsden. Her deep insights provided the framework of this report. It is her continuous confidence in me and in my work that have made this thesis possible.

Finally, I want to thank my dearest classmates and friends around the world for their encouragement throughout this process.

## TABLE OF CONTENTS

<b>TITLE PAGE .....</b>	<b>1</b>
<b>ABSTRACT .....</b>	<b>2</b>
<b>ACKNOWLEDGMENTS .....</b>	<b>3</b>
<b>I. INTRODUCTION .....</b>	<b>5</b>
A) Industry Overview .....	8
B) Reasons for opening the markets.....	14
C) Methodology .....	17
<b>II. EXAMINATION OF POLICIES .....</b>	<b>19</b>
A) Overview .....	19
B) Policies and Restrictions.....	23
<b>III. EXAMINATION OF MARKETS .....</b>	<b>26</b>
A) Real Estate Markets – Characteristics and Issues.....	26
i) Geographical Concentration of Land Value.....	29
ii) Opportunities in Various Market Sectors .....	31
iii) Issues on Valuation and Investment Criteria.....	38
B) Political Conditions of Taiwan.....	39
C) Economic and Financial Conditions and Real Estate.....	42
D) Incentives and Tax Regulations Overview .....	45
<b>IV. FOREIGN INVESTMENTS AND REAL ESTATE IN TAIWAN .....</b>	<b>47</b>
A) AMCs .....	48
B) Real Estate Funds and Institutional Investors.....	50
C) Foreign Business Investments and Developments .....	52
D) Impacts on Local Businesses.....	54
E) Securitization of Real Estate Assets .....	56
F) More on Market Information Transparency .....	58
<b>V. CONCLUSIONS AND SUMMARY .....</b>	<b>60</b>
<b>APPENDIX A - Map of Taiwan.....</b>	<b>64</b>
<b>APPENDIX B - Investment Flow Chart for Ordinary Areas .....</b>	<b>65</b>
<b>LIST OF DATES OF INTERVIEWS .....</b>	<b>66</b>
<b>BIBLIOGRAPHY .....</b>	<b>67</b>

## I. INTRODUCTION

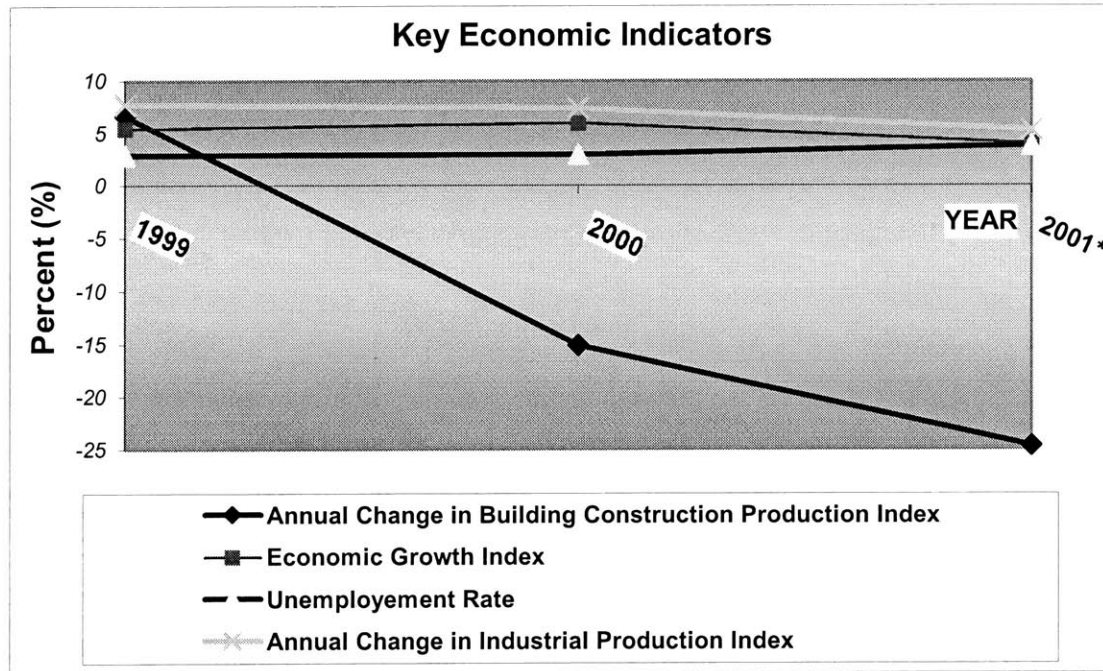
Taiwan, officially named the 'Republic of China', has recently eased restrictions on foreign investment, opening real estate and financial services to foreign investors. Before July 24, 1996, foreign investment was totally banned in fields such as real estate trading, real estate leasing, and land development. Since then, several regulations have been amended. As of April 25, 2001, a new law allowing for broader ownership of real estate by foreigners (excluding Mainland Chinese) passed its first reading in the Executive Yuan. New regulations will allow companies to own real property, including purchases of agricultural land. Along with other amendments and regulation relief, the real estate markets in Taiwan seemed to be wide open. There are also discussions to further allow Mainland Chinese to invest and trade real estate in Taiwan. Several causes have prompted this relaxation of investment policies. The official reason is that, in preparing for the joining of WTO, by enlarging property use and loosening up land ownership laws, the government hopes to create more interests in local investment by foreign firms.

The government's hope of rejuvenating the real estate markets by relaxing foreign investment regulations is being both supported and questioned by professionals and the academia. As the whole financial market softened due to the 1997 Asian financial crisis, political struggles within the island and with Mainland China, the earthquake in 1999, and the technology stock downturn in the U.S. in 2000, Taiwan's economy has been experiencing virtually no growth in the first quarter of 2001<sup>1</sup> (see Figure 1). The movement of the real estate markets, which is also cyclical (China Trust, 1999), is experiencing a recession. On the surface, it seems like the economic conditions in Taiwan is not likely to attract any foreign real estate investment. Even though the

---

<sup>1</sup> According to the Directorate-General of Budget, Accounting, and Statistics of the Executive Yuan of Taiwan, the economic growth indicator for the 1<sup>st</sup> Quarter of 2001 only achieved merely 1.06%. It is the lowest in 26 years of Taiwanese history (Directorate-General of Budget, Accounting, and Statistics of Taiwan, <http://www.dgbas.gov.tw>)

Taiwanese government believes that with the possibilities of forming AMC (Asset Management Corporations) and of eventually setting up regulations on securitization of real estate products will generate real estate activities (Tsai, 2000, 2001, Money Management Monthly, 2001), no one has really analyze a projection on the amount and impact of foreign investment into the markets.



**FIGURE 1.** Key Economic Indicators of Taiwan in the last 3 years. Building Production, Economic Growth Rate, and Industrial Production Index are decreasing while Unemployment Rate is rising. *Source: Investment Commission, Ministry of Economic Affairs, July 2001<sup>2</sup>. (note: 2001\* is the forecast annual percentage change based on the numbers of January to May, 2001).*

However, the notion of buy low and sell high during a down market had created an artificial boost in Taiwan's stock market index. As the regulations and policies of allowing foreign investment in real estate unveiled in April 2001, the TWSE (Taiwan Stock Exchange) index reacted positively as a sign of confidence and expectations in the new capital flow. Construction related stocks jumped by 5.8% after the day the policies were announced (United News, 4/27/2001).

<sup>2</sup> Data acquired from the Internet, at [www.moea.gov.tw](http://www.moea.gov.tw), MOEA, Taiwan, 'Economy at a Glance', July, 2001.

Financial sectors also benefited as many believed collaterals of loans will benefit by revitalizing the real estate markets and by providing liquidity (United News, 4/27/2001).

Albeit there are good deals in a depressed market, several fundamental issues in Taiwan's real estate industry and lack of liquidity in general might further devalue the real estate prices. As the sluggish market continues to slump, investment in real estate might present higher market and financial risks. Many believe that AMC will have a detrimental effect on property value (Colliers Jardine, 2001). Furthermore, as the political situation with Mainland China has not yet reached a stable stage, the Taiwanese government's wish to attract foreign capitals into the market seems to be only a desperate attempt to attract inflow of investment.

Overall, the practicality of amending foreign investment policies is indisputable. The short and long term effects of the dynamics of various complex factors, however, are uncertain. The long term benefits of opening the markets is believed to outweigh the short term pain to be experienced due to competition and restructuring of the markets. Reality check will indicate that the industry and the government will need to inject a heavier dose of medicine, rather than an optimistic policy change, to redirect the real estate markets.

Yeh (2001) and Huang (2001) both suggested in their articles that the opening of the markets to foreign entities is positive but will create larger value differences between several sections in Taipei and the rest of Taiwan. The simple reason is that investment activities will concentrate in the Capitol city. However, difference in transaction volume is an understatement. By further examining the economic situations and industry structure, the opening of the property markets will create a polarizing effect in realty value. This thesis will discuss the dynamics of these internal and external factors. The long-term intangible effects of market transparency and standardization will also be discussed.

## A) *Industry Snapshot*

Taiwan's real estate market has been described as the locomotive industry of the economy. Prior to 1990's, this business had been experiencing explosive growth, which in turn led the growth of several other industries. A careful study on the overall housing price of Taipei shows that the real housing price in the capitol city doubled between 1987 and 1990 (Chang, 1999)<sup>3</sup>. However, beginning in 1995, the relations between Taiwan and Mainland China deteriorated, and the trial missile launch by the Communist Party in early 1996 triggered an increase in capital fly off and an emigration trend from Taiwan. The real estate industry was impaired accordingly. In 2000, as Democratic Progressive Party (DPP) took over the government from Kuomintang (KMT, or Nationalist Party), more capital were relocated outside of the island. According to Tu and Chi, 1996, the largest determinant of foreign investors' strategy towards Taiwan is political and social stability<sup>4</sup>. Thus, real estate markets in Taiwan are relatively volatile due to the sensitivity towards political climate. Any sudden movements and speculations on Taiwanese government and Mainland China seem to affect investors' confidence level in Taiwan (Tu and Chi, 1996).

As a result of being a closed and local market, Taiwan's real estate prices seem to have high correlations with the stock market prices (Chang & Lee, 2000), which in turns explains the connection and volatility between the overall economy and real estate markets. With a growth

---

<sup>3</sup> Chang, 1999, Overall housing price of Taipei City, by deflating by the consumer price index and controlling for quality by the hedonic technique.

<sup>4</sup> Tu, Jenn-Hwa and Schive, Chi, "Determinants of Foreign Direct Investment in Taiwan Province of China: a new approach and findings" *International Finance Investment and Economic Development*. Taipei: Wha-Tai Press, 1996. ('Political Stability' remains to be the number one factor of the determinants of foreign investment inflows to Taiwan. For companies arriving after 1987, both 'political stability' and 'adequate technology level' were ranked as very high factors. 'Social order and security', 'industrial linkages', 'rapid economic growth', 'good quality of labor', and 'trade liberalization' were also ranked as high. Investors from the US also ranked 'government attitudes toward FDI', 'tax incentives', and 'foreign exchange liberalization' as important factors).



rate of 4.83% in 1998 and a slowing growth in M1b money stock<sup>5</sup>, Taiwan navigated the worst of the Asian financial crisis relatively unscathed. Yet it suffered its own loss of confidence with a massive drop in exports that year. With the technology stock crash in the US in 2000<sup>6</sup>, the economy in Taiwan has been stagnant. The resulting defaults on bank loans, many of which used real estate and stock as collateral, and the subsequent stock market crunch forced government to push for asset management corporations to consolidate and repackage NPL's (non-performing loans). By opening the real estate markets, foreign investors would thus have higher incentives in funding AMC structures.

Fundamentally, the value of real estate in Taiwan is high. Aggregated from each city and county's total market value of land, the overall land price was estimated conservatively at \$78 trillion NT yuan in 1997 (Hua, 2000), or approximately \$2.6 trillion US at that time. High density, high expected appreciation rate, the culture to own homes<sup>7</sup>, low taxes and other government policies all contribute to such high land prices (Hua, 2000). Nevertheless, most of the value is at the major metropolitan cities, namely Taipei, Kaohsiung, and Taichung. Taiwan has a population of approximately 22 million. The limited total area is about 36,000 km<sup>2</sup>. This averages approximately 611 people per km<sup>2</sup>. In Taipei, for example, there are 2.6 million people reside on a total area of 271.8 km<sup>2</sup>, given an average density of 9,560 persons per km<sup>2</sup>. Most of the real estate value is concentrated on the flat land of the northern part of island, or more specially, north of Hsing-Chu city (Tsai, 1996). Land and real estate prices have been historically very high, especially in Taipei, the capitol city. Recently, because of such concentration of population, wealth, infrastructure, and activities, only Taipei and Hsing-Chu City, where the

---

<sup>5</sup> Data obtained from the website of the Ministry of Economic Affairs, Taiwan ([www.MOEA.gov.tw](http://www.MOEA.gov.tw)).

<sup>6</sup> Taiwan is the largest producer of desktop PCs, monitors, scanners, and motherboards globally. It is also the 3<sup>rd</sup> largest information technology industry after the US and Japan. (Price Waterhouse Coopers, 2000).

<sup>7</sup> About 80.7% of residential dwelling units are self-owned (1995 Housing Survey, Population Census Office, 1996). Real estate is highly valued by Chinese who believe that land is the only real property to accumulate and create assets. This belief has been enhanced by the market performance during the period from the first oil crisis in 1972 to the bubble economy in late 1980s when investment in real estate gained greater profits than other investments (Chang & Lin, 1999).

famous industrial park resides, are relatively unharmed by the economic downturn, while the rest of Taiwan experience negative price appreciation<sup>8</sup> (Please see Appendix A for map of Taiwan).

As land values have changed rapidly, the Ministry of the Interior has commenced difference methods to compile indices for these changes. Since 1989, indices such as ‘Examination/Compilation Index of Urban Land Values’ and “Examination/Compilation Guidelines for and Index of Urban Land Values” were developed. These were also the bases for the land increment tax calculations for some areas. These indices are compiled twice each year and are then announced on January 15 and July 15 respectively. Fourteen issues have already been released as July 2000. The general index of urban land value in the thirteen issue is 1.02% lower than that of the thirteen issue. Specifically the decrease for Taiwan province is 1.50% and for Taipei 0.04%. The decline for Kaohsiung is 0.33% (Land Administration, MOI, March, 2000).

Another important observation is that population growth rate has slowed down in the past few years. As the average annual population growth from 1990 to 1998 is only about 0.93% (Price Waterhouse Coopers, 2000), the historic population growth from 1961 to 1989 has been at least 2.1% (Tsai, 1999). Net increase in real estate dwelling units, however, is estimated by China Trust, is approximately 125,000 units per year for the past 10 years (from 1989-1999)<sup>9</sup>. In Taipei, since Land price has been so high in inner cities, it is cost prohibitive to acquire land to redevelop projects. Development around the metropolitan area is thus encouraged by the market dynamics, and is further supported by the development of Mass Rail Transit System (MRT) and other road and highway connections. Public transportation improvements are believed to have profound impacts on real estate land prices in Taipei City due to the high volume of traffic. Some said that

---

<sup>8</sup> According to Hua, 2000, the overall housing price in Taipei has maintained at about the same level as in 1990. Vacancy rate is also one of the lowest in Asia. Overbuilt housing stock has been serious enough to drive down housing price in cities such as Kaohsiung and Taichung (Hua, 2000).

<sup>9</sup> Chan, 1999, page 9-10. Annual dwelling growth rate has slowly decreased in the last 4-5 years.

it is the MRT system that preserved land prices in the surrounding areas of Taipei<sup>10</sup>. Kaohsiung, the second largest city in Taiwan, is also planning for a MRT system. The study of the impacts of newly built highways and MRT systems on real estate development would be an interesting topic to explore.

Overall, the vacancy rates of office properties in Taipei CBD have averaged below 10% since 1997<sup>11</sup>. Nevertheless, decrease in space demand and lagged supply coming online will seem to push vacancy rates back to pre-1997 levels (see Figure 2). Other cities in Taiwan, however, do not have such a resilient office market as Taipei's. Kaohsiung's vacancy rate was estimated at 20% during the first quarter of 2001<sup>12</sup>. The famous Tuntex building in Kaohsiung was only about 50% occupied as of May, 2001. Residential properties, on the other hand, also experience high vacancy due to overbuilding. Estimated by the government, the conservative figure of vacant residential units amount to more than 1 million divisions in 1999 (Chan, 1999). This number is believed to be increasing as the pipelines come online. With only approximately 6.2 million households in Taiwan (Chang and Lin, 1999, Chan, 1999), the amount of unoccupied units seems shocking. According to China Post (China Post, 4/28/01), the island's population will grow by two million in the following years. Provided that a household is made up of 3.5 people, Taiwan will have only 600,000 more households by the next decade. If we naively ignore property demolition and replacement rate for the moment, to consume the more than one million unoccupied houses, the market will need approximately 30 to 50 years (China Post, 4/28/01).

The one-million number is only the reported unsold units. Vacant private individual dwellings were not even calculated in this figure. Due to the FAR regulations implementation of the 1990's

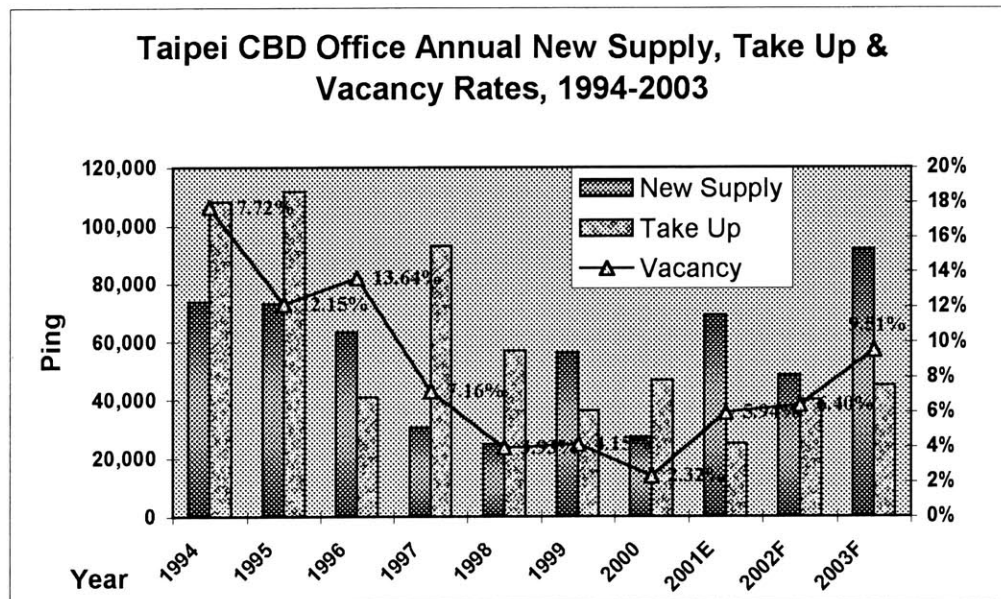
---

<sup>10</sup> Interview with Mr. Calvin Wang, Taipei, 2001; and interview with Mr. Z. N. Wu, Taipei, 2001. Also see Berry & McGreal, 1999, page 106.

<sup>11</sup> Colliers Jardine, Inc., "Taipei Office Market - Market Conditions & Forecast", Colliers Jardine Research, April, 2001.

<sup>12</sup> Interview with Shou, Hong, Jiang Jen Business Co. Ltd., Kaohsiung, 6/6/01.

and easy access to construction permits (China Post, 4/28/01), excess building created a large over-supply of stock in the markets. These vacant residential properties, although relied mostly on pre-sale systems for funding, will raise default risks. The expected return and overall company's financial strength would be diminished. Of course, as a result, lack of sufficient income stream further causes the severity of loan defaults (Downs, 1998, Chan, 1999).



**FIGURE 2.** Taipei CBD Office Space Forecast. *Source: Colliers Jardin Research, 2001*

Construction activities have also been cyclical. In early 1990's, residential units have increased dramatically. Please see Table 1 for the amount of space and permits granted in the last 15 years. Although in the past 4-5 years the growth rate has slowed down, the amount is in-negligible. The peak of increase in early 1990's was due to the announcement of FAR regulations. Local developers thus rushed to activate construction options prior to the regulations taken into full effects. This is also the main reason of why there are large amounts of vacant units today (Chan, 1999), which will be further discussed in Chapter III.

**Table 1.** Construction Permits Granted, 1986-1999.

**Units: Thousand Square Meters**

Year	Construction Permits – All		Construction Permits – Residential Units			
	Total Floor Area	Annual Growth Rate	Floor Area	Annual Growth Rate	Units	Annual Growth Rate
86	29,937	14.29%	15,950	14.85%	85,028	14.55%
87	34,275	14.49%	19,179	20.24%	106,214	24.92%
88	37,525	9.48%	18,818	-1.88%	92,787	-12.64%
89	46,187	23.08%	21,477	14.13%	96,456	3.95%
90	40,066	-13.25%	19,209	-10.56%	89,478	-7.23%
91	53,671	33.96%	24,765	28.92%	136,233	52.25%
92	76,436	42.42%	41,260	66.61%	254,916	87.12%
93	72,490	-5.16%	41,312	0.13%	223,708	-12.24%
94	61,214	-15.56%	35,323	-14.50%	215,002	-3.89%
95	45,687	-25.37%	25,237	-28.55%	145,687	-32.24%
96	37,689	-17.51%	19,413	-23.08%	102,992	-29.31%
97	45,779	21.47%	23,809	22.64%	129,604	25.84%
98	43,095	-5.86%	17,594	-26.10%	85,736	-33.85%
99*	18,755	-15.34%	4,853	-45.10%	27,270	-40.50%

\* 1999 figures presented only the first half of the year.

Source: China Trust, 1999

## ***B) Reasons for opening the markets***

According to the Ministry of Interiors (MOI), as Taiwan is expected to join World Trade Organization (WTO) by the end of 2001, it is inevitable to open real estate markets to the international arena. The impacts of joining WTO and forming 'San-t'ung' (Three-Links)<sup>13</sup> with Mainland China have profound short and long-term effects on the economy. Just on the surface, joining the WTO is linked to the real estate markets in the following ways. 1) Office and residential demand and transaction are expected to increase due to the increase numbers of international firms doing business in Taiwan. 2) Retail and hotel sectors will experience more complexity and competition. 3) Real Estate services are also opened as a result of WTO agreement. Thus, local real estate consulting, brokerage, management, and other servicing industries will be facing different sets of expectation and operating level. And, 4) Sections of agricultural and industrial land are possibly to be rezoned due to development and market pressure (Pong, 2001). As Taiwan is trying to build itself into as Asia-Pacific operations center, allowing real property investment and ownership by foreign entities is unavoidable.

On January 6<sup>th</sup> and 7<sup>th</sup>, 2001, The National Economic Development Conference in Taiwan has decided to promote real estate investment by foreigners. Foreign capital and technology infiltration was expected to advance the overall land and property resource development and utilization. Foreign real estate investments must meet six major 'principles,' or requirements, According to MOI (Ministry Of Interiors), they must: 1. aid the construction of local major projects and the development of the island's overall economy; 2. help upgrade the quality of life; 3. not adversely affect the ecology or human environment; 4, not violate land administration and

---

<sup>13</sup> The 'three-links' refers to as direct trade, postal and transportation links with the Mainland.

construction laws and rules, or other relevant regulations; 5, not involve land monopoly or land speculation; and 6, not affect national land integration development projects. Nevertheless, its an open invitation for foreign capital.

Furthermore, liquidity has always been an issue for developers. The housing market, especially in Taipei, is dominated by the private sectors and equity investors. The institutional system of real estate finance is underdeveloped in Taiwan (Hua, 2000), where is no secondary mortgage market and no real estate securitization vehicles. Therefore the resources and liquidity for property finance are limited and the 'pre-sales' system become very popular, which can be thought as a kind of self-financing system for house-buyers and developers. Thus, as the real estate markets become stagnant, liquidity along can force proposed and on-going projects to default. On the other hand, even though property price has come down, the supply of capital is limited due to lack of confidence and capital fluidity.

Even investors with capital in hand are cautious due to the weak economic and financial conditions. Cathay Life Insurance, Co., one of the largest landowner in Taiwan, has repositioned real estate investment at around 8% of its portfolio (Tsai, 2001)<sup>14</sup>. Banks have also become more cautious in lending in real estate products being afraid of deepening non-performing portfolios. The government and industry professionals thus hope inflow of capital will activate both demand and supply, and consumer confidence in the industry. Along the same line, the markets are thirst for newer practice on risk-return analysis and creative financing skills. Furthermore, as other

---

<sup>14</sup> Interview with Mr. Philip Chen, Taipei, 2001. The government regulation for maximum real estate investment for insurance company portfolio was set at 19%. Historically Cathay Life Insurance has invested in real estate at around 11%-16%. As of first Quarter of 2001, the limit for insurers to invest in real estate in their portfolio has been raised to 30%. This change is hoped to increase insurance companies' interests in the property markets and to stimulate the sluggish market. Some believe that there will be limited effects on the market because the return on such investments is now hard to compare with interest earnings on time deposits at banks (Taiwan Economic News, January 8, 2001).

industries in Taiwan are opened due to the joining of WTO, it is essential to make the real estate and financial markets more transparent.

One of the attractions of allowing foreign capital flow into the depressed real estate market is the outside expertise on AMCs. Goldman Sachs, Morgan Stanley, Lehman Brothers, etc. are all currently partnering with local Taiwanese banks to create asset management corporations. Due to the high return economy prior to the financial crisis and relaxation of banking regulations of in Taiwan, many smaller and less conservative banks are now holding real estate that are priced less than what the loans worth. Figures published by Ministry of Economic Affairs (MOEA) estimate non-performing loans at around 8-10% of the total banking assets (Tsai, 5/17/01). In reality, depends on the classification of NPL's, many believe the true number is at least double of what the government wants to admit to<sup>15</sup>. Currently the formation of Resolution Trust Corporation (RTC) is also under discussion to help the industry reorganizing the portfolios. The MOEA has been actively pushing for RTC and AMCs to force recognition of NPLs and assets by banks and companies. It only makes sense to open real estate markets to foreign ownerships and other financial restrictions to minimize complications and to attract interests.

Another push for opening of real estate markets to foreign entities comes from domestic citizens and overseas Chinese. Due to the emigration rush after the 2000 election, many Taiwanese have acquired foreign citizenships. Inheritance of real properties thus becomes a social issue. Agricultural land, which originally was not on the list of opening to foreign ownership, is thus allowed to be possessed by overseas Chinese and foreigners. A rush of liquidation of agricultural properties is thus to be avoided. These people now will be able to inherit family properties although they have given up their Republic of China nationality and taken up foreign citizenship.

---

<sup>15</sup> According to Colliers Jardine (2001), the percentage of NPL is around 20%. Please also see Tsai, Hui Fang, "Kuo shou chuang chia ma t'ou tsü shang yeh pu tung ch'an", China Times, Taipei, 5/17/2001, where the estimate was only 8-10%.



In order to soften political uneasiness with the Beijing, discussions on further opening land ownership and investment opportunities to Mainland Chinese are also underway. Many owners have already tested the water by taking deals to Hong Kong. As residents from Taiwan have already poured tremendous amount of capital into the property markets in Mainland, the soon to be formulated three-links with Mainland and the joining of WTO of both entities will create pressure to further strengthen the economic ties and capital flows in both directions. More importantly, this will boost investors' confidence in investing in Taiwan as well as utilizing Taiwan as the Asia-Pacific operations center to expand ventures in Asia in general.

### *C) Methodology*

Although Taiwan's real estate markets are quite small, it is not easy to paint a complete picture of the complexity. Both positive and negative factors add to the intricacy. The intention of this report is to present a qualitative description since many scenarios intertwine with the political history, market structure, and global economy. The background of both internal and external factors will contribute to the disparity effect of real estate value. Up to now, the Taiwanese Government has not published any studies on predicting the volume and timing of foreign real estate investment. Expectations of professionals, government officials, and academic observers interviewed were all in verbal and qualitative format. Thus, this paper will present relevant background information, examine the current conditions, the likelihood of foreign interests, and the dynamics of opening the real estate industry.

In the next chapter, an analysis of the policy itself and a very brief glance of why other countries that recently have opened their real estate markets will be studied. An examination of the real estate markets in Taiwan today and the characteristics of the industry will be summarized by geographical and sector categories in Chapter III. The same section will describe overall background of foreign investment factors, such as political, economic, and tax issues in Taiwan. Chapter IV will examine the possible effects of the inflow of foreign capital. The testimony will be synthesized according to the major focuses of these investment flows, and how these focuses will further separate property values across regions and qualities. Research and findings from interviews on upcoming trends will also be presented in conjunction with the dynamics of the opening of real estate markets. The last chapter will provide the concluding remarks.

## **II. EXAMINATION OF POLICIES**

### ***A) Overview***

Recently, several countries have opened real estate markets to foreign investment opportunities. Vietnam opened foreign investment in 1988 (White Michael, 1996). In 1989, in Mexico, new regulations were promulgated which removed barriers to foreign ownership of real estate development and real property management (Ellsworth, David G & Capaldi, Michael D, 1993). In preparation for the 1992 unified market in the European Community (EC), Spain opened its borders to foreign investment around 1990 (Rubenstein, Eric C, 1990). West Germany opened real estate syndication for foreign entities in 1992 (Allen, R. Stanley, 1990). South Korea allowed foreigner to own and acquire land with the same rights, and obligations as Koreans in July 1998 (Business Korea, 1998). The government of Malaysia also recently made it easier for foreign investors to invest in the Malaysian property market by relaxing the Foreign Investment Committee (FIC) guidelines, introducing a stamp duty waiver and also encouraging aggressive lending by local financial institutions (Shun, 2001). Several other countries also partially opened real estate markets in the past decade. As Taiwan prepares to unlock its own property markets, several similarities and differences could be drawn from these past experiences.

Of course, each country had its unique economic, social, and political reasons and conditions for opening the markets. A very general and macro view of the causes of relaxing investment policies concludes that there are commonly two main reasons. One is to encourage capital flow and stimulate economy. Vietnam, Malaysia, Mexico, and South Korea were good examples. The other general reason is to comply with WTO, EC, or other trade agreements. Spain and Germany could be roughly placed in this category. Essentially, it is safe to say that in many instances both

reasons, along with other more specific situations, all contribute to the cause. Mexico unwrapped the markets due to successful internal economic reform and in compliance with the North American Free Trade Agreement (Ellsworth, David G. & Capaldi, Michael D., 1993). West Germany's markets attracted real estate syndications due to the anticipation of anticipated with the coming of the 1992 single market and fundamental strength in the European markets (Allen, R. Stanley, 1990).

After the Asia financial crisis, Korea became the most aggressive country in opening up its real estate markets (E&Y, 2000). The government held an international real estate fair in 1999 to exhibit real estate that is offered for sale by the Korea Land Corporation and private companies. In August 1998, the government opened a real estate information center within the Ministry of Construction & Transportation to provide information concerning real estate that is on sale, regulations concerning the purchase of land and other relevant information. For comprehensive administrative support for foreign investors, the government organized a "Foreign Investment Support Center" at the Korea Trade Investment Promotion Agency. Through the center, the government intends to offer one-stop service to foreign investors and will introduce an automatic approval system. In 1998, as Korea's construction industry accounted for over 20% of its GNP, the nation's foreign exchange crisis further increased the number of properties for sale due to fund shortages and business restructuring (Business Korea, May 1998). To inject vitality into the nation's construction industry, Land Bureau increased investment in public construction projects by increasing the transportation tax rate. Regulations on housing supply and the Land Bureau encouraged the Korea Land Corporation to purchase land owned by private firms up to a maximum of 3 trillion won (about US\$2.1 billion) worth. A suspension of the land development charge and exemption of 1999 real estate acquisition tax and registration tax further encouraged

transferring real properties offered for sale by private companies. Forming of KAMCO's<sup>16</sup> and real estate securitization policies further bolster liquidity and investment vehicles. With such measures designed to boost the construction business, Korean government hoped builders and foreign entities would contribute to the demand for real estate and inject vitality into the market (Business Korea, May, July, 1998).

Similarly, Taiwan has also created numerous incentives along with the granting of foreign investments to boost real estate markets. From 1997, the government has decreased rental rates on state-owned properties. Rent and tax breaks were applied to investments in the planned industrial parks. NT\$130 billion (Approximately \$4.3 billion US, at \$NT30=\$1US at that time) was allocated as preferential loans for first time homebuyers between 1996-1998. Regulations on transferable development rights and stricter floor-area-ratios were modified and enforced in 1998. In 1999, NT\$ 150 billion (Approximately \$5 billion US) was released for low-interest loan program. Another NT\$110 billion (\$3.6 billion US at NT\$ 30.5= \$1 US) was designated for the victims of the September 21<sup>st</sup> earthquake. Furthermore, formal regulations on real estate brokerage were passed to encourage transactions. In 2000, real estate appraisal laws were passed. A government-subsidized NT\$ 320 billion (Approximately \$10 billion US, at NT\$32=US\$1 at that time) loan program was released for first time young-adult homebuyers. In 2001, a 3% interest rate mortgage plan further encouraged first time residential purchasers to take advantage of the low cost of capital.

Assuming investors are confident in the market, as foreign funds pour in, demand increases will in turn raise real estate value. For example, after the 1997 unification, an influx of Mainland and

---

<sup>16</sup> The government-owned Korean Asset Management Corporation (KAMCO) has won international recognition for its instrumental role in Korea's recovery. KAMCO has acquired the nonperforming loans of failed financial institutions, packaged them, and sold them at auction or through direct sales or securitization. It has succeeded in attracting foreign investment (E&Y, 2000).

foreign capital boosted real estate in Hong Kong dramatically (Lin, 2/25/01). Global businesses have utilized Hong Kong as the channel of investment into China. After the joining of WTO and the three-links, Taiwan is hoping for similar effect to lift its lethargic real estate markets (Pong, 2001). Nevertheless, there are at least three reasons why the situations of the two cases are different enough to lessen the effects. The first is that the market and financial conditions were extremely different. Taiwan, along with the majority of East Asian countries, require AMCs to restructure its financial system, as opposed to Hong Kong, which at that time benefited from China's booming economy (Yeung and Olds, 2000). Secondly, Hong Kong has a very dense and concentrated market. Although Taiwan has a relatively small real estate market, it is geographically and qualitatively diverse enough to create a further divergence in value since businesses are only drawn to certain location or types of properties. The effect on the overall market might not be positive as other externalities intervene (Pang, 2/19/01)<sup>17</sup>. Thirdly, the joining of WTO and establishing trade links with China will no doubt increase transaction levels. However, firms in Taiwan are also now allowed to relocate to other countries, especially to Southeast Asia and China, to enjoy lower production costs and resources (Huang, 2000; Hsieh, 1997). The general short-term land demand, as a function of increase in foreign businesses and replacement of local factories and corporations, is unclear. Other reasons such as degree of political uncertainty and degree of market transparency are also vital factors in determining the rejuvenation of the real estate markets<sup>18</sup>. Therefore, the immediate amount and effects of foreign capital into Taiwan will probably not be as glorious as what Hong Kong has experienced.

---

<sup>17</sup> Externalities such as government policies on releasing agricultural land supply, differences in existing development infrastructure, etc. will increase disparity in land value (Pong, 2001) - please see Chapter III for more detail discussions.

<sup>18</sup> Please see Chapter III and IV of this thesis.

***B) Policies and Restrictions***

On April 25, 2001, the Interior and Ethnic Committee of the Legislative Yuan passed draft revisions of the Land Law to conditionally permit foreigners to invest in real estate properties in Taiwan. The proposed rule revisions were initiated by the Ministry of the Interior after comments made at the national economic development conference held in January of this 2001. After final ratification by the plenary session of the Legislative Yuan, foreigners will be permitted to purchase realty properties for their own use, investment or public interest purposes after approval from governing agencies in the central government.

According to the newly revised Land Regulations, Land Administration of MOI, Section 19 and 20, for both oversea Chinese and foreigner, the procedures for real estate development and investment are modified and simplified. The original Section 21, 22, and 23, regulating the sizes and uses of foreign investment in real estate, were abolished<sup>19</sup>.

For self-use, investment, or common-benefit type of real estate acquisition, applicants are only subject to local municipal regulations and should apply to local authorities directly. Information submitted should include the size and location of the property. The eight major types of realty allowed are: 1) residential, 2) office, storefront, or factory, 3) church, 4) hospital, 5) international schools, 6) embassy and common-benefit facilities, 7) cemetery, and 8) any investment which assists national development projects (Land Administration, MOI). Investments classified as the eighth category will require the following procedures.

---

<sup>19</sup> The Ministry of Interiors, Land Administration, Land Regulations. Document Date: 4/6/2001, Document Number: Taiwan 2001, #020563.

For business investment involving real estate, applicant needs to apply to the Investment Commission of the Ministry of Economic Affairs (MOEA) with an investment or development plan. The plan should include name or title of the project, exact location, amount and sources of investment, operations business plan, and any other explanations of the project. The Investment Commission will forward the application to the Ministry of Interior (MOI), which will then convene the Commission and other relevant MOEA agencies to review projects on a case-by-case basis. Foreign real estate investments must meet six major 'principles', or requirements. According to MOI, they must: aid the construction of local major projects and the development of the island's overall economy; help upgrade the quality of life; not adversely affect the ecology or human environment; not violate land administration and construction laws and rules, or other relevant regulations; not involve land monopoly or land speculation; and not affect national land integration development projects.

In terms of acquisitions or merging with local real estate companies, Taiwan maintains a foreign ownership limit on companies listed on the Taiwan Stock Exchange and OTC Market. The limit was raised to 50 percent in early 1999, up from 30 percent for all foreign investors and from 15 percent for a single foreign investor. The current strategy and economic and trade policy goals plan to eliminate the foreign ownership limit in the near future<sup>20</sup>. Taiwan created a negative list in 1990 with clearly specified industries which were closed to foreign investment. However, over the past decade, Taiwan's liberalization efforts have cut the list to one percent of manufacturing categories and five percent of service industries. For example, besides real estate development and investment, power generation, power transmission and distribution, oil refining, piped-gas supply, telecommunications, trucking, container-train operations, car leasing, etc. were all released from the negative list.

---

<sup>20</sup> 'Economic and Trade Policy Goals', Industrial Development and Investment Center, MOEA, Taiwan, 2001.



In order to simplify overseas investment application procedures, any application for investment that is in a category not on the negative list and that involves an amount less than NT\$1 billion may be approved by the chairman of the Investment Commission without review by the entire board of IDIC. If the investment amount is less than NT\$500 million, the approval process usually takes about one week. Applications for investment over NT\$1 billion must be reviewed by the full board of the Investment Commission and decisions will be rendered within three to five weeks<sup>21</sup>. Please see Appendix B, the Investment Flow Chart. Besides regulations on the amount of investment, no other specific policies are imposed on foreigners owning real estate. Restrictions on land use duration were abolished along with the opening of markets<sup>22</sup>.

Overall, policies for foreign entities to acquire realty are fairly straightforward. Factors such as tax policies (see Chapter III) and zoning regulations also promote investments in real estate. Nevertheless, legal framework such as tenant rights, collateral ownership transfers, and architectural codes and standards are still hazy and incomplete. In many cases, the market shapes the formula of the rules. A brief discussion on these issues will be presented in the next chapters.

---

<sup>21</sup> Ministry of Economic Affairs, Taiwan, "Investment Environment in the Republic of China." Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001. Ch. 11.

<sup>22</sup> The original Section 23 of the Land Laws required the expected length of use to be reported to the authorities. When applying for realty investments, foreigners should make use of the land parcels and constructions according to the approved duration. In case they cannot fulfill the purposes within a certain preset timetable, they may apply for extensions. But if they fail to utilize the realty properties, they are required to sell them in three years. Otherwise, the properties will be auctioned and the revenues will be returned to the landowners. This policy, of course, is to increase transaction volume in the market and avoid foreign landownership domination (Land Administration, MOI, Land Laws, Taiwan).

### III. EXAMINATION OF MARKETS

#### A) *Real Estate Markets – Characteristics and Issues*

As a result of the domino effects of the Asian flu, currently the real estate markets in Taiwan are in a down cycle. On average, land value has virtually no growth, or even negatively in some areas (see Figure 3). In 1990, to better comply with land utilization policies, the government announced the implementation of floor area ratio (FAR) to the whole province, which was hoped to eventually curb future excess development. Nevertheless, the rules were not clear and the regulations were not enforced homogenously after the announcement. As of 1998, exclude of Taipei and Kaohsiung<sup>23</sup>, only an estimated of 75.03% of all area has enforced the allowed-to-build ratio<sup>24</sup>. The impact of the announcement of the regulation, however, has only created a rush to build prior to the enforcement of these regulations. Local developers were persuaded to dash to complete projects to avoid new penalties and restrictions. Thus supply of the real estate markets has exceeded the growth in demand across all sectors. In the past two-three years, the Asian Financial Crisis has further magnified the overbuilt real estate markets.

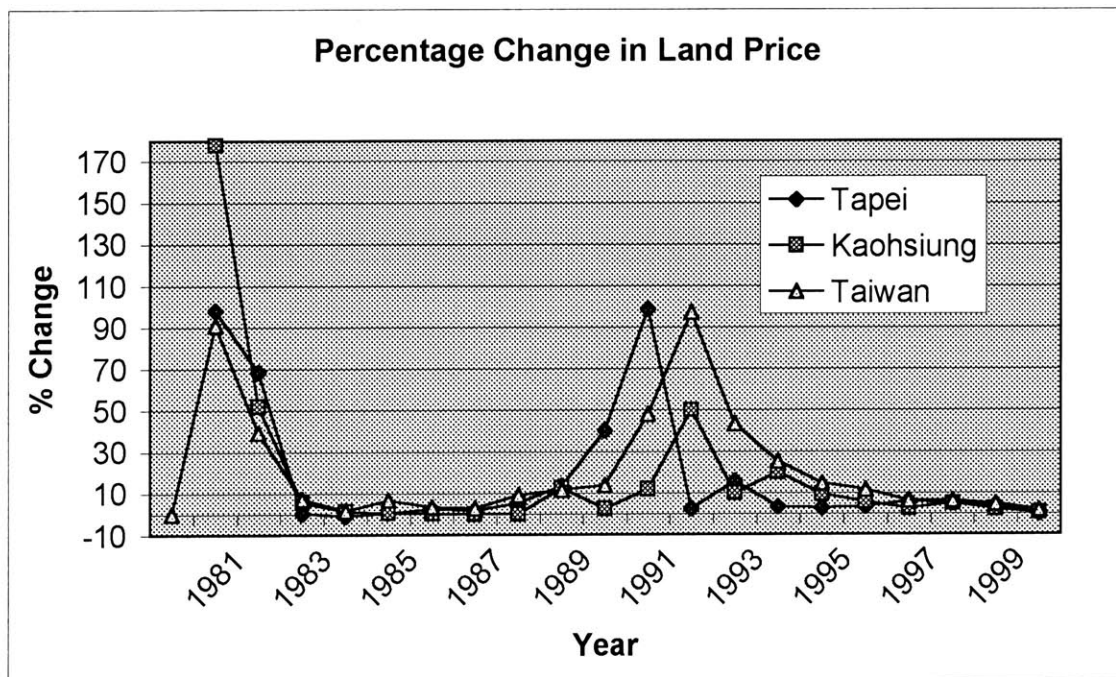
By the end of 1998, vacant residential division was conservatively estimated at over 1 million units, of which the majority is in the central and southern regions of Taiwan. Both turnover and the value added of real estate investment industry suffered a decline in the past a few years (IBISworld, 2000). The reason for the fall included external factors such as shrinking of the real estate market, policies that caused oversupply, and unsatisfactory performance of the stock

---

<sup>23</sup> Regions surrounding Taipei and Kaohsiung City, along with Kimman, had already fully enforced FAR by the end of 1998.

<sup>24</sup> Chan, M.Y., *T'ai wan fang ti ch'an hê shih hui chún?* Taipei: China Trust Commercial Bank, Economic Research Division, 1999, pp 24-26. Source of Figure: Division of Construction, Taiwan.

market. Meanwhile domestic factors include heavy debts of some conglomerates and premature expansions of some construction companies. The effect triggered a large backlog of fund that pushed banks and lending sources to further shut down funding pipeline and started to call in loans, which almost created a domestic financial crisis within Taiwan. Luckily, the government intervened and pushed for several subsidized programs, including a 150 billion NT\$ preferential housing loan program, to encourage first time home purchase. Although the effect was small compared to the overall number of vacant units, the programs did increase demand moderately (Pong, 2001).



**Figure 3.** Percentage Change in Land Price in the last two decades in Taiwan. *Source: China Trust, 1999.*

The 1999 earthquake that jolted Taiwan resulted in an estimated 9 billion NT\$ in property loss (China Trust, 1999). Although some buildings were privately insured, others were not because the government did not provide earthquake insurance. Taiwan's banks incurred an estimated \$300 million to \$1 billion in losses on mortgage loans on these uninsured properties (Chan,

1999). Now the government is funding a massive reconstruction effort, but it will be prolonged because the demand for capital is so great. Another observation resulting from the earthquake exposes the often mediocre standards of real estate construction in Taiwan. With the new programs such as the 320 billion NT\$ preferential loan program and other major housing market boosting plans to be implemented, the government has to draw subsidy provided from taxes paid by the general population. The government thus has the right and obligation to impose restrictions in regard to the quality, specifications, and legality of the housing involved, and thus to accelerated the weeding out of inferior builders and buildings so that overall construction standards can be heightened. Indirectly, the loan program also put pressure on the old 'pre-sale' ways of acquiring capital as potential buyers leverages the government's subsidized program. Foreign developers and investors will thus play an integral role in hastening this movement by expecting different sets of standards and by importing new ideas and technologies.

Other major government land policies that will affect the real estate markets in numerous ways in the upcoming years are the 'Agriculture Land Release Act' and the 'Urban Renewal Act'. As Taiwan's development policy has transformed from agriculture based to industrial and services based economy, land zoned for agriculture use still occupies about 80% of the surface area on the island<sup>25</sup>. In order to maximize land resource utilization and minimize illegal agriculture land use, the government has revised the 'Agriculture Development Regulations' which specified that approximately 34,000 hectares of agriculture land, or approximately 20%<sup>26</sup> of the total agriculture land surface area, could be rezoned for other usage. This new land supply, as some are within the urban area, will create price competition as the agriculture landowners wish to realize the

---

<sup>25</sup> Agriculture only accounts for 3% of GNP of Taiwan. According to Chan, 1999, commercial and residential land surface area only occupies approximately 4%, while agriculture land occupies approximately 80% of Taiwan (Chan, 1999, page 28).

<sup>26</sup> The total estimated agriculture land in Taiwan is estimated at 158,000 hectares. Approximately 72,000 hectares are zoned as 'critical agriculture land'. 52,000 hectares are planned as 'protected zones,' and 34,000 hectares are labeled as 'secondary agriculture land.' Although all 158,000 hectares can now be sold and transferred freely, only secondary agriculture land could be rezoned for other uses (Chan, 1999).

potential land development options. Due to oversupply of land, although the shorter term impact on inner city land value might not be as apparent, the long term price depreciation is inevitable (Chan, 1999, page 28-29).

The 'Urban Renewal Act', in short, encourages privatized investment to revitalize inner cities and redevelopment older properties. Prior to the regulations, only the government, with the power similar to eminent domain, had the authority to consolidate land for revitalization and redevelopment (Chan, 1999). After 1998, with incentives, rezoning, development, and revitalization are allowed for private entities. The consolidation of land is regulated by the Act to ensure enough local and residence support is acquired for any given project. These potentially large projects prompted investors to look for alternative funding sources. According to the regulations, trusts and securitization could be set up to further accelerate and fund urban renewal projects (Liao, 1999). Although the full regulations have not yet materialized, the idea of real estate securitization has been again seriously probed, which creates a new horizon in the real estate investment markets in Taiwan.

#### *i) Geographical Concentration of Land Value*

In Northern part of Taiwan, which accounts for 50.27% of GDP in 1989 (Tsai, 1996), contributes a large share of the overall land value in Taiwan. According to Mr. Shou, Jiang Jen Business Corp, the estimated land value in the north of HsingChu City consists approximately 70% of the real estate value in Taiwan<sup>27</sup>. Since Taipei and HsingChu are the two cities which did not suffer as much during this down cycle as the rest of Taiwan's markets, the overall real estate industry could have been saved due to the fact that the core value in the northern part of Taiwan is still intact.

---

<sup>27</sup> Interviewed Mr. Hong Shou, Manager, Jiang Jen Business Co. Ltd., Kaohsiung, 6/6/01.

As predicted, foreign investors have and probably still will stay with in the Taipei region and vicinity. Large and trophy properties are more likely to attract investment. Thus, the capital inflow in only certain small geographical areas will possibly create larger price disparity between real estate value in Taipei area and the rest of Taiwan (Huang, 2001). Furthermore, the more established landowners in Taiwan, namely Cathay Life Inc., HonTai Group, and ShinKong Life Insurance, have entered the real estate markets very early, before the land price really took off a few decades ago. These large corporations are the largest property owners in Taipei area (Business Times, 5/21/2001) and are most likely to benefit directly from any increase in land value in that region. It is safe to say that due to geographical disparity and uneven wealth distribution, the short-term effect of real estate investment opportunities will only help those who are in less financial distress as compared to the ones who really need capital and liquidity, such as developers in the central and southern Taiwan. As described on the Economic Daily News, there is a possibility that ‘the good is getting better, which makes the substandard even worse’ (Economic Daily News, 2/22/2001).

However, not everyone believes that only Taipei and Hsinchu area will see activities from foreigners. Some believe that since real estate price has dropped to its lowest in 10 years in some central and southern cities, few major projects in those areas, both in residential and office sectors, would provide attractive investment opportunities (United Evening News, 4/2001). Investment banks like Merrill Lynch had sent representatives to research those regions hoping to discover opportunities in those undervalued areas (Tsai, 5/7/01; Taiwan Economic News, 4/15/01). Nevertheless, the majority of the transactions and business development will still occur in the northern cities of Taiwan. The externalities in Taipei areas are just more investment friendly as transactions are more transparent and overall investment and economic conditions are

more responsive to foreign entities. It is inevitable that Taipei metropolitan areas will experience a large portion of the transaction volume as foreign capital enters the markets.

## *ii) Opportunities in Various Market Sectors*

Since last year, an estimated of twenty plus foreign entities have sent research teams to Taiwan to study real estate markets<sup>28</sup>. The level of supply and demand and concentration of property products are diverse. There are many guesses but some believe A-class offices and hotel, large retail, and high-end commercial residential will be the main targets of acquisition (Taiwan Economic News, 4/15/2001)<sup>29</sup>. The following paragraphs will attempt to summarize the current conditions, important emergent trends and issues of each sector.

### **Office**

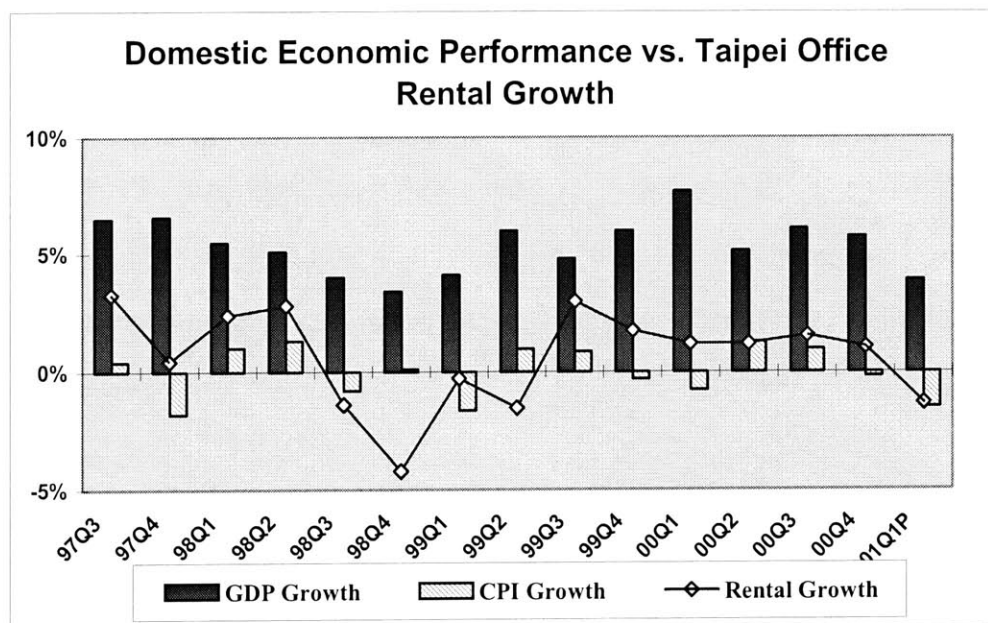
The office market mostly focuses on the few largest cities in Taiwan. Taipei, with the most trophy properties and demand, attracts most research and data on trends and strategies. Taipei's first quarter 2001 office property figures show similar characteristics to economic data from countries around the world. As mentioned in the previous chapters, even office markets in Taipei is experiencing downturn due to the general economic slowdown in North America, Europe, and Asia, causing firms and governments to adopt more conservative business strategies (see Figure 4). According to Investec, Inc., some companies have begun to consolidate space while others have begun shopping for cheaper rents or scaling back expansion plans (Investec, March, 2001).

---

<sup>28</sup> The Taiwan Economic News, "Foreign institutional investors eye real estate market," Taiwan Economic News, Taipei, 4/15/2001. According to the report, Merrill Lynch were named to be the most aggressive in researching the market.

<sup>29</sup> Obviously, different investors have different investment objectives. Please see Chapter IV of this Thesis for more discussion on this topic.

As the 'three-links' are about to materialize and for preparation of joining the WTO, the Taiwanese government is attempting to formulate plans that will help Taiwan through the immediate slowdown, and ultimately secure Taiwan's place in the international and China-focused trade arena<sup>30</sup>. The state of worldwide economies and the demand for products from Taiwan's hi-tech industries will be major factors in determining the overall health of Taiwan's economy and the office market specifically. While the opening of trade with China and entry into the WTO should increase investment opportunities in Taiwan, it will also likely open direct competition between Taipei, Shanghai, Hong Kong, and Singapore (Darwent, 1999) to attract foreign firms catering to China's large market and possibly the location of regional headquarters. The plan for Taiwan to establish itself as the Asia-Pacific operations center provides positive government incentives and market dynamics in Taiwan's office market.



**FIGURE 4.** Domestic Economic Performance vs. Taipei Office Rental Growth. *Source: Colliers Jardin Research, 2001*

<sup>30</sup> East Asian Executive Reports, "Taiwan Opens Real Estate to Foreign Investment", East Asian Executive Reports, Volume 19, Issue 2, Washington: Feb, 1997, pp 5-6.



## **Retail**

Modern retail stores such as department stores, warehouse stores, large-scale supermarkets and convenience chain stores, have played increasingly important roles while other types of traditional retail outlets, such as mom-and-pop stores, are becoming less important as consumer patterns change<sup>31</sup>. In 1999, over US\$16.9 billion or 18.2% of the consumer goods were sold through modern retail stores. This proportion is expected to increase significantly as many of the over 30 planned shopping malls are developed and new modern retail types, such as category killers and big-box retailers, are introduced to the market (American Institute of Taiwan, 2000).

Over the next several years, as large quantities of shopping malls and centers are to be planned and built, funding of capital should create various levels of investment opportunities. If the overall economic situation stays flat and the unemployment rate keeps rising, the only force to keep these potential shopping mall developments interesting is the strong spending will and power of the residents. The index of organized retail sales has been growing in the past 5 years, only until April of 2001 the growth indicator saw a decline<sup>32</sup>. The island's first composite commercial zone shopping mall, TaiMall, opened on July 4, 1999, and two shopping malls, including Core Pacific and International Finance Center, are scheduled to open in 2001 (Investec, May, 2000). Eight shopping malls are under construction as of 4<sup>th</sup> quarter, 2000<sup>33</sup>. Local major players include Core Pacific group and Taiwan Sugar Corporation. Conglomerates such as President and Far Eastern are also investing heavily in various types of department store development activities. These establishments of shopping malls will provide a promising new venue for department stores and specialty chain stores seeking to branch out.

---

<sup>31</sup> American Institute of Taiwan, "FY 2001 Country Commercial Guide: Taiwan", Bureau of Economic and Business, July, 2000.

<sup>32</sup> Investec Limited Co., "Investec Property Commentary." Taipei: Investec Ltd Co., March and May, 2001.

<sup>33</sup> Eight Shopping malls are Mall of Taiwan, Metro Walk, Breeze Shopping Center, Taiwan Sugar's Jenteh Shopping Center, Taiwan Sugar's Taichung Shopping Mall, Taiwan Sugar's Miaoli Shopping Mall, Gold & Silver Island Square Shopping Mall, and Kaohsiung Zanadu Shopping Mall.

Overall because of the high population density, retail sectors seem to be more bullish in expanding. Japanese department store chains, Carrefour of France, Price Costco of the U.S., and Wellcome of Hong Kong all have entered the island and building successful franchises. With the right location, these modern retail stores seem to be replacing mom-and-pop shops in Taiwan. Since large shopping centers require large parcels of land, location becomes extremely important. As the economy conditions soften in general, of the 70-80 projects announced 3-4 years ago, only about 10 will be opening in the next 1-3 years (Investec, April, May, 2001). Several firms that were successful in getting their industrial property rezoned for commercial usage, have since put their projects on hold. These firms are aware that banks are becoming more conservative with their loans, and may not be looking to take on large amounts of new debt considering the current economic outlook.

### **Residential**

As mentioned before, residential properties have been severely overbuilt. Tremendous amount of vacant space exists in all markets, although the situation in Taipei is less apparent. In recent years, permits for the construction of residential properties have accounted for the largest portion of all permits applied. As of this year, residential housing construction activity has slipped into third place, behind 'other' retail sectors (convenience stores, gas stations, etc.), and factory construction (Chan, 1999, Investec, 2001).

Partially due to the oversupply in the last decade, the average presale price per ping of Taiwan's stock, after CPI adjusted, stays fairly constant. However, in both Kaohsiung and Taichung, the

index has actually fallen (Chan, 1999, page 44)<sup>34</sup>. Government's preferential loan programs have not yet made a large impact on prices at this time. As mentioned in the first chapter of this report, slowing population, already high own-to-rent ratio, and rising unemployment rate have severely reduced housing demand. The over supplied market does not seem to recover soon. Only niche products such as special market segmentation targeting special customers, and/or great location opportunities will attract any investment or funding into the residential market.

Overall, the quality of residential assets in the existing market varies enormously. Several issues in construction practices and standards were exposed during the earthquake of 1999 (Pong, 2001). Architectural standards and construction specification are especially incomplete in the residential sector. The government will need to strengthen inspection and enforce building code to promote properties to compete in the international arena.

### **Hotel**

Many large hotels have opened since late 1990's in Taipei. These trophy properties have incorporated large retail space, restaurants, clubs, and other amenities to complement hotel business<sup>35</sup>. This year, in early March the Penghu County Government, an island between Taiwan and Mainland, approved a plan by the Penghu Bay Development Company to develop 5-star hotel with 300 plus rooms. The plan calls for a shopping arcade and water park in addition to the hotel. The project will reportedly cost NT\$4.5 million and is scheduled to open in 2003 (Investec, March, 2001). As plans for the inclusion of a casino are also under discussion, Las Vegas Sands Inc. has been mentioned as a possible investor in the project. The trend is to integrate other

---

<sup>34</sup> During the 1<sup>st</sup> quarter of 1999, the average selling price of residential property per Ping in Taipei: NT\$34,300, Taichung: NT\$11,460, Kaohsiung: NT\$10,540. As per interview with Mr. Philip Chen, Cathey Life Insurance, as of the 1<sup>st</sup> quarter 2001, the price has fallen below \$10,000 per Ping in central and southern Taiwan. This figure was the market rate and was not CPI adjusted.

<sup>35</sup> For example, Far Eastern Plaza in Taipei, Han-Lai/Han-Shin Department Store/Hotel/Club in Kaohsiung.

entertainment and service businesses in the large hotels, especially international business and 4 to 5 star properties.

While most of the region's hotel markets suffered from the Asian financial crisis and over-building in the late 1990s, the hotel market in Taiwan was a leading performer among its immediate neighbors as its economy remained relatively unscathed and rooms supply expanded conservatively (Colliers Jardin, 2001). In 2001, however, there are concerns that recently exposed troubles at a number of the country's banks and a corresponding fall in the stock market may lead to a contraction in business travel. On the other hand, just as the office market, gradual developments for establishing the three-links with Mainland and the joining of WTO are raising hopes that this may create a booming new tourist and business market.

Currently, hotels around the science-based industrial parks in various cities of the island are still experiencing high occupancy, which helped statistically on the overall hotel performance measures. Even though the overall construction level will decrease, newly developed facilities are still supported by market demand in some of these locations.

### **Industrial**

As the number one semi-conductor manufacturing country in the world, Taiwan has benefited greatly from the high-tech and computer explosion in the 1990's. The recent high-tech, bio-tech, and earlier light-industrial manufacturing industries have made industrial properties a valuable and high-return income sources for some large landowners. The famous HsinChu Science-based Industrial Park has lifted the real estate value significantly around the city. There are currently 88 industrial zones in Taiwan with a total area of 11,274 hectares. Twenty-four new zones are

now under development and will have a combined area of 18,562 hectares when completed<sup>36</sup>. The government will leave the development of future industrial zones up to the market mechanism and private initiative. Zones that are currently under planning or construction included the Yunlin Science-based Industrial Park and Tainan Science-based Industrial Park. Industrial zones are generally planned by the government and developed by the private sector. Once an announcement to lease or sell land within the zones has been made, interested firms may apply for consideration. However, because these parks are under strict government supervision, spec-building products and/or quick profit turnaround deals are less likely. However, due to the high demand of high-tech space in the recent years and sometimes heavily government subsidized programs, these industrial parks create tremendous development opportunities in retail, residential, hotel, and offices around the programmed areas. The real opportunities are not necessarily the industrial zones themselves, but the supporting areas surrounding the industrial activities.

Another potential in the industrial real estate sector is the mixed industrial-commercial zones which are planned and controlled according to the development permit system under local authorities. Mixed industrial-commercial zones are delimited areas in the outskirts of urban centers and have convenient transportation links. Flexibly planned according to their location and local development needs, they include various zones that allow retail, wholesaling, warehousing, industrial and other commercial uses. Light industry, experimentation and research, and other services can also be permitted in some planned living circles that have mixed industrial-commercial zones. Due to the planned transportation connections to these zones, development has been vibrant in several areas. They provide great potentials for both domestic and foreign companies who need to be close to urban centers. As the market expands, density and zoning

---

<sup>36</sup> Ministry of Economic Affairs, Taiwan, "Investment Environment in the Republic of China." Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001. Ch 11.

restrictions within the city business districts will push the industrial sectors into the mixed industrial-commercial zones.

### *iii) Issues on Valuation and Investment Criteria*

The U.S. valuation methodologies such as the income approach and discounted cash flow analysis are just beginning to be adopted in Asia (Shun, 2001). Only very few office products were priced according to the income capitalization approach. Historically, property value in Taiwan have been based on capital values, i.e., the amount of the owner's original investment, or what the owner thinks the property might sell for at some point in the future, rather than the U.S. model of projected cash flows. High expected appreciation rate and the intrinsic value of owning properties also contribute to the determination of real estate. The result: owners in Taiwan have priced assets at far more foreign investors have been willing to pay, creating a 'value gap.' (E&Y, 2000). Foreign investors perceive asset prices as inflated, considering that many corporations and businesses are struggling to recover, restructure, and reposition; and much of the market is overbuilt with offices and other products. This phenomenon is especially apparent in regions outside of major cities.

The ways properties are valued in Taiwan are benchmarked on the price or cost to build per 'ping'. A ping is 3.3058 square meters. For offices in Taipei in early 2001, average rent per ping ranges from NT\$1,500 to NT\$3,500, with the mean at NT\$2,257 per ping (Colliers Jardin, 2001). Domestic investors thus far have been using price per ping on going-in and going-out market adjustments as rules of thumb. Different locations and different types of building, as expected, have different value standards. Construction cost estimates and bids sometimes also use cost per ping or per square meters as the benchmarks. Vacant land is commonly measured in hectares. Thus, local knowledge of the market is extremely important as the valuation methods are not

based on income stream and are less transparent in Taiwan. A large portion of the value is priced on speculated appreciation of the property or market. Sales Comparison approach, along with cost approach of realty appraisal, has historically been one of the main factors of high real estate prices in Taiwan. Investors tend to treasure the potential of appreciation and the intrinsic value of owning a property, which causes high real estate prices and inconsistent valuation criteria (Hua, 2000).

Nevertheless, these market prices only provide a partial basis of valuation method in the international practices. Foreign investors will likely to weight on income stream as the foundation of property values. The current rent-price ratio ranges only between 3%-6%<sup>37</sup>. If prices do not drop down, Taiwan's real estate market will have a hard time convincing international investors and attracting capitals.

## ***B) Political Conditions of Taiwan***

How stable the relationship between Taiwan and China is remains to be the question of the day. Many literatures and studies have already covered this complicated subject. Taiwan's internal politics closely ties with the delicate relationship across the Strait. As Mr. Copper described, "No nation's future is more fraught with uncertainty than Taiwan's." (Cooper, 1999, p191) It is not the intention of this thesis to predict the future of Taiwan. Nevertheless, the issue of social and economic stability is the single most important factor for foreign investors in Taiwan (Tu and Chi, 1996).

---

<sup>37</sup> Interviewed with Mr. Ting Jean Chen, Manager, International Property & Finance Ltd., and Mr. Shi-Hong Tsai, Investment Department, China Development Industrial Bank, Taipei, 6/1/01.

As the new government took power in 2000, tension between Taipei and Beijing was raised to a new level. Taiwan's continuing struggles against internal corruption, diplomatic isolation, and social and economic disparity remain to be a concern (Rigger, 1999). Nevertheless, as Taiwan prepares to join WTO by the end of 2001, the government realized that to regain its membership of international economic organizations it must ensure that it could not be accused by other countries of any kind of protectionism (Ferdinand, 1996). The markets are opening up as the foreign investment climate is fairly friendly. As a way to encounter the isolation strategy imposed by Beijing, the more the uncertainty in Taiwan's future, the more the friendly the government is to foreign trades and relationships. From foreign investors point of view, however, flexibility thus seems to be a major criteria<sup>38</sup>. In financial terms, this means potential higher returns and discount factors to adjust for risks. As real estate is usually thought as a long-term investment, compared to Hong Kong or Singapore, Taiwan's political ambiguity will likely to affect the performance of direct long-term real estate investment.

As Taiwan establishes the three links with the mainland, the government and supporters hope China will lessen military pressure on Taiwan. By strengthen economic ties and allowing Mainland resources to invest in Taiwan, Beijing will be more cautious in making reckless attacks on Taiwan because it does not want to lose its own economic interests. Real property investment will especially serve this purpose (Taipei Economic News, 1/8/2001). The eventual allowing of Mainland money to invest in Taiwan's real estate markets seems irresistible since many foreign funds are expected to mingle with resources from China. More importantly, investors from Hong Kong will be a major source of investment (Taipei Economic News, 1/8/2001).

---

<sup>38</sup> Mei, Jianping, "Asian real estate in a portfolio context: Long term opportunities." *Real Estate Finance*, Vol 15, Issue 4. Winter 1999. pp 85-94.



Internally, Taiwan, just like many political or social entities, is subject to the influence of 'quanxi' in business practices. 'Quanxi' describes the importance of relationships when making deals. According to Yueng and Olds, 2000, even though the significance of quanxi is decreasing as the markets become more standardized and global, it is far from transparent in Taiwan. It has simply been domesticated in such a way as to be more or less limited by the rule of law and concern for economic efficiency (Yueng and Olds, 2000, p260). In real estate, as traditionally being a local industry, relationships and intrinsic elements can rise to the level of political concerns. Different cities and regions expose different level of 'quanxi'. Other industries in Taiwan, depends on the degree of globalization, also experience different levels of influences due to this type of relationships. For example, the high-tech or semi-conductor fields seem to be a more mature in this discipline. As the industries are opening up due to WTO and other trade treaties, internationalization of the markets will hopefully diminish the downside effects of so called 'quanxi burden'.

Recent news on the struggle of the fourth nuclear-power plant construction<sup>39</sup> and the proposed Bayer factory in Taichung<sup>40</sup> has cooled down investors' confidence in Taiwan's social and

---

<sup>39</sup> Taiwan's Fourth Nuclear-Power Plant controversy might scare away other large investors. As the work was started on the \$5.2 billion plant when Taiwan still had a Kuomintang (KMT) government. The Democratic Progressive Party (DPP), which defeated the KMT in a presidential election last March (2000), has consistently opposed nuclear power, partly for safety reasons-- Taiwan is earthquake prone and because of worries about what to do with the waste on an island Taiwan's size, and partly because of political play. The KMT says the plant is essential to the island's prosperity. The DPP suspects it is more interested in kickbacks surrounding the project, which might have to be repaid were it cancelled. In October, 2000, Chang Chun-hsiung, the prime minister appointed by the DPP president, Chen Shui-bian, announced that building work on the plant, which was already one-third built, would be stopped. General Electric and Japan's Mitsubishi Heavy Industries are set to claim up to \$2 billion in compensation following the cancellation. Earlier this year, Taiwan's top court ruled that the decision to stop the project didn't follow proper constitutional procedure; work on the plant resumed in February, 2001.

<sup>40</sup> Bayer, a German drugs company, planned to build a factory in Taichung, in central Taiwan, at a cost of NT\$50 billion (\$1.5 billion) to make a chemical used in the manufacture of polyurethane. In June 1996 the project was approved by the central government. It was said to be Taiwan's biggest single foreign investment. But the local permits needed to build the factory were held up. Environmentalists claimed the plant would be a danger to people living nearby, though the nearest homes would be more than a kilometer away and the factory would be within the Taichung harbour area, which already contains a good deal of industry. After more seesaw discussions with the local and the central governing agencies, on March 19th, 1997, Bayer announced it was going to build the factory in Texas instead. It said it had lost faith in the

political conflict management (Chan, 2001). Internal corruption and politics between parties still dictate the outcome of policies and development strategies. Political groups often support civil demonstrations. Local politicians are influenced by short-term benefits of obtaining supports and votes. Controversial projects, large or small, are prone to possible community and political scrutiny, which could be both positive and/or negative. It is thus essential for any investors or developers to understand Taiwan's local political climate when entering potential contentious ventures.

### ***C) Economic and Financial Conditions and Real Estate***

Even though politics affects the confidence level in the investment markets, it does not, however, impede the intensification and escalation of economic growth in Taiwan. Some believe that Cross-strait tensions have not slowed Taiwan's economic liberalization (American Institute of Taiwan, 2000). In March of 1999, the Securities and Futures Exchange Commission (SFEC) raised the foreign ownership limit on listed companies to 50% from 30% for all foreign investors and from 15% for an individual foreign investor. Subsequently, the SFEC raised the ceiling limit on investment by a foreign portfolio investor from \$600 million to \$1.2 billion. A futures exchange was inaugurated in July 1998. These moves, together with strong underlying fundamentals, have attracted large inflows of foreign portfolio investment capital over the past two years. Furthermore, as the investment policies are more relaxed, the foreign exchange and finance regulations are also eased in the recent years. Financial administration and affairs are the responsibility of the Ministry of Finance. The Central Bank is in charge of overall planning and

---

legal system that governs project approval in Taiwan. In other words, the central government did not seem to have the means to enforce its own planning approval.

execution of market credit management. The current foreign exchange controls do not have strict rulings on revenues and expenses<sup>41</sup>. Most capital investment and revenues can be transferred free of controls.

As the government tries to lift the policies on real estate and to enlarge various capital feeds into the markets, how the market might react is a different story. For example, the NT\$320 billion revitalization program mentioned earlier has several sides to the possible effects. What worries many people the most is the possibility that the release of huge amounts of low-interest loans on the one hand while reducing the percentage of down payments on the other will tempt unscrupulous companies to use figureheads to shift large numbers of housing units that they have been unable to sell onto financial institutions. This would lead to a ballooning of bad loans held by banks and a heightening of the potential for a financial crisis (Wieman, 2000). At the same time, large numbers of home buyers might be tempted by the twin attractions of low-interest rates and low down payments to purchase high-priced housing units on impulse, taking on the heavy burden of dozens of years of interest and principal payments, and increasing the probabilities of default. The combination of these two worries will make banks and lending institutions tighten up capital resources and other more aggressive protective measures. During the recent years, some conservative banks do not even consider of granting loans unless secured by well-established income generating collaterals<sup>42</sup>.

More importantly, overbuilding of properties and slowdown of economy created a possible downward spiral of defaults of bank loans. The recent ‘Gradient Land Development Restrictions’ policy, which inhibits the amount of land to be developed on hills and sloped land, forced many

---

<sup>41</sup> Ministry of Economic Affairs, Taiwan, “Investment Environment in the Republic of China.” Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001. Ch. 14.

<sup>42</sup> As per conversation with Mr. Wu, Land Bank of Taiwan, Taipei, 5/31/01.

landowners of these affected areas to default<sup>43</sup>. Although Taiwan's financial market was not damaged as badly as of yet as some of other South East Asian countries, the recovery time does not seem to be shorter for Taiwan, since, for example, the rebound of high-tech industries might take longer than commonly expected. As the cost of capital or interests rates are irresistibly low from other Asian countries, ie, Japan, if a massive default happens, both domestic and abroad lending sources would suffer. Defaults on those loans led to huge withdrawals of short-term capital by other foreign investors, causing devaluations in local currencies. This will further depress property value. That is why the government is willing to speed the formation of AMC's to reorganize the portfolios. Nevertheless, this creates opportunities for foreign funds to invest in quality assets in low prices.

Domestically, the government would like to encourage private investment<sup>44</sup>. As mentioned in the beginning of this chapter, Urban system between Taipei and CKS Airport) have been consigned to private firms to execute on a build-operate-transfer Renewal Act encourages projects to be funded by non-public sources. Recently, Taiwan has been reducing the public sector's role in the economy. A number of construction projects (including a north-south high-speed railway, a massive rapid transit system in Kaohsiung City, and another MRT basis. The possibility of allowing trusts and securitization of assets to acquire capital and liquidity generate interesting dynamics to the real estate and financial markets (Liao, 1999). As foreign investments flow into the markets, opportunities on capital venture into these funds and knowledge transfer into the asset securitization area in Taiwan provide vibrant potential for both investors and the industry.

---

<sup>43</sup> The 'Gradient Land Development Restrictions' specifies a percentage of sloped land that is developable. Several resorts and residential projects on hillsides were thus stopped due to the violation of this policy, and in term went into default. It was passed on Dec. 1997 (Pong, 2001; Chan, 1999).

<sup>44</sup> One of the internal policy direction set by MOEA in 2000 is to 'Improve the Investment Environment and Encourage Private Investment'. Industrial Development and Investment Center, MOEA, Taiwan, 2000.

#### ***D) Incentives and Tax Regulations Overview***

Taiwan has long encouraged and facilitated direct foreign investment. Regulations affecting foreign-invested enterprises are generally transparent and non-discriminatory. The authorities have taken steps to improve the investment climate, especially for service industries. On January 1, 2000, the statute of preferential taxes to encourage investment by foreign companies was amended to extend measures for another ten years until December 31, 2009. While most of these incentives were for the purpose of upgrading Taiwan's industrial base, real estate investments can indirectly benefit from some of the programs. For example, for investment in resource-poor or lesser-developed rural area, companies may deduct 20% of the amount of investment from their corporate income tax. Research and development, mergers between companies, investment in certain industries, and reinvestment all can potentially take advantages of these widely available programs. Value added land tax on directly used land, stamp taxes and deed taxes for the sale of land and factory buildings, and difference in value between existing and new industrial land can all be deferred or exempted. Department of Taxation and the Ministry of Finance also have preferential tax policies for important investment enterprises such as operating large-scale shopping centers. Other incentive measures include low-interest loans and government participation in certain promoted projects<sup>45</sup>.

---

<sup>45</sup> Ministry of Economic Affairs, Taiwan, "Investment Environment in the Republic of China." Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001. Ch. 7.

Overall, the tax burden on the Taiwanese is quite low when compared to other countries<sup>46</sup>. Land tax has declined in its share of national tax revenue in recent years and has come down to only 12 percent in 1998 (Hua, 2000). Real estate investment thus benefits greatly from the low tax system. The 16 tax categories, governed by the national, special municipality, county and city levels, aggregately range from 6% to 40% of the consolidated income<sup>47</sup>. Real estate specific taxes include house tax, land tax, farmland tax, and land increment tax. Transactions will include stamp tax, contract tax, notary tax, title tax and 'rule fees'<sup>48</sup>. Besides contract tax, all the other four categories are approximately calculated by value of the property times 0.1%. Contract tax ranges 2 to 6% of the value of the property<sup>49</sup>.

When selling real estate, land increment tax and real estate sale tax (a form of capital gain tax) are calculated by a ratio the increase in price from assessed land value and annually published assessed property value respectively (China Trust, 1999). This value increment tax calls for 40%-60% of the value increased over the original value base. However, this tax is not as heavy as it looks. Most people make transfers before the value increment reaches a higher bracket. Moreover, the increment is computed according to an annual official assessment, which is usually between 50 to 60 percent of the market value (Hua, 2000). Thus, the effective tax rate is actually quite low. When owning and holding real estate, house tax, land tax, and rent income tax are applicable. Businesses with real properties are subjected to other business taxes. There is no special tax levied on foreign entities to own or transfer buildings and land.

---

<sup>46</sup> According to Hua, 2000, the total national tax revenue as percentage of GDP in Taiwan is 15.3%, as compared to 24.3% in Korea, 29.6 percent in Japan, 31.7 percent in the United States, and 35-55 percent in the European countries (Hua, 2000, page 130-131).

<sup>47</sup> Ministry of Economic Affairs, Taiwan, "Investment Environment in the Republic of China." Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001. Ch. 8.

<sup>48</sup> Various fees charged by local municipality, which might include application fees and processing fees.

<sup>49</sup> Chinatrust Real Estate Co. "Real Property Tax Brochure", Taipei: Chinatrust Real Estate Co., November 1999.

#### **IV. FOREIGN INVESTMENTS AND REAL ESTATE IN TAIWAN**

It is interesting to observe this ongoing experiment of a local, traditional, and closed industry being released into the global environment. As the political uncertainty, current market dynamics, financial turmoil, and industry structure intertwine, Taiwan's real estate businesses' own uniqueness will attract some foreign investors and scare away some others. The immediate pattern of investment after the relaxation of the policies is obviously going to be different from what's on the horizon. Based on the conditions and characteristics discussed in the previous chapters, the majority of the predicted investment focuses will concentrate in certain opportunities, such as geographical location and product types. AMC will attract investment banks and thus reorganize Taiwan's non-performing asst portfolios. Various types of discounted properties in different geographical locations will attract different funds and institutional equity investors. As Taiwan prepares to join the WTO and establish trade links with China, foreign business investment and development will continue to grow. Thus, depends on the investors' business strategy and level of confidence, the demand of real estate and peripheral businesses in Taiwan will be rejuvenated.

Local businesses will thus experience different levels of immediate impacts as foreign funds enter the realty markets. What is most important is that the opening of the industry will catalyze the globalization and the move towards standardization and transparency in Taiwan's real estate businesses. This transformation will feed itself as the local standards and international customs build on each other. One impact is the development of securitization in real estate, which will allow the globalization of creditorships of assets in Taiwan.

*A) AMC*s

With the arrival in Taiwan later this year, Asset Management Companies (AMC), along with the government funded RTC<sup>50</sup> structure, will be authorized to dispose of bad collaterals. Of the roughly NT\$1 billion in non-performing banking industry loans in Taiwan, approximately at least 55%-60% is in real estate (Colliers Jardine, 4/2001). According to the Economic Development Bureau, MOEA, AMC will probably be able to acquire the portfolios at an average of 50-60%<sup>51</sup> of the collateralized face value (Money Management Monthly 3/12/2001). The short-term turbulence after AMCs are established will have a detrimental shock to Taiwan's real estate prices. In the long run, however, it is necessary to reorganize and consolidate these portfolios and force banks and property owners to recognize the severity of these losses. Artificially high prices will eventually be adjusted by the free forces of the market (Colliers Jardine, 2001).

Thus far, foreign institutions have been quite active in probing NPL and other financial asset acquisition/securitization transactions. Press reports<sup>52</sup> in Taiwan have linked Morgan Stanley Dean Witter with China Development Bank in the establishment of an asset management company (AMC) for the acquisition of financial assets, and have reported that Lehman Brothers and Deutsche Bank may be joining an AMC, which is to be established by Bankers Association of the Republic of China. Goldman Sachs announced to have signed a memorandum of understanding with China Trust Commercial Bank for the establishment of an AMC. Local banks such as Land Bank of Taiwan is also active in setting up AMC units. Other foreign

---

<sup>50</sup> MOEA will fund NT\$100 billion (US\$2.9 billion) to a RTC type of structure (Pong, 2001, pg 194).

<sup>51</sup> As compared to approximately 45% of the face value in Korea, 40% in Malaysia, and only 25% in Thailand (Month Management Monthly, 3/12/2001).

<sup>52</sup> United News 4/2001, Money Management Monthly 3/2001, China Times, 5/2001.



commercial and investment banks have been looking at the acquisition of other types of financial assets, such as personal property mortgages, accounts receivable and credit card receivables.

Nevertheless, these planned AMC won't become operational until after relevant rules and regulations are ratified by the Legislative Yuan. Policies on the forming of trusts, tenant rights, responsibility on taxes, details of transactions all still need to be refined. There is still some time before AMC would operate smoothly as the related regulations are under configuration (Money Management Monthly, 3/12/2001).

Additionally, after the transactions are implemented, AMCs will require more resources and time to make some of the less quality properties more commercially viable and attractive to various investors (Pong 2001). As these collaterals are consolidated, the quality of the properties will determine the severity of devaluation and AMC's operation strategies. In order to generate higher profits from these high-risk ventures, AMCs themselves will face challenges when choosing non-performing property collaterals to acquire. These private AMCs might not have enough knowledge of the borrowers and individual properties (Ingves, 2000). There are huge variations in the externality and quality of these properties across the island (Pong, 2001). For example, many assets are residential projects in the rural parts of central and southern Taiwan, where the oversupply situation is already severe due to the overbuilding and market conditions. It will take more time and higher risk adjusted returns to reorganize these portfolios. Consequently, the negative impact on real properties value might not just be a one-time shock, but a longer period of turmoil. The opening of real estate investment to foreign funds of various risk criteria thus becomes a vital part of the disposition of these properties.

In order to prevent the AMC's auction of the bad assets of banks from undermining the domestic real estate market, the government is considering the operation of the AMC should be integrated

with the securitization of collateral creditorship, so that the AMC can sell the creditorship certificates abroad (Pong, 2001). The formation of AMC will thus catalyze the structuring of securitization in real estate assets in Taiwan as AMC will need to increase funding, reduce risks, and raise liquidity.

#### ***B) Real Estate Funds and Institutional Investors***

For more direct real estate equity investment and acquisitions, many speculators have strong confidence in the amount of upcoming potential transactions. Some believe that class-A offices and apartments in Taipei are the hottest item on the shelves (Tsai, 5/7/01). Some consider the deep discounted price in the central and southern regions will attract the most of attention (Lee, 4/13/01). More specific products such as high-tech buildings and industrial internet data centers were also mentioned in literatures as potential merchandises (Chan, 5/21/01; Tsai, 5/7/01). Some projected that foreign investors will mainly eye hotels, resort and leisure centers (Wu, 4/13/01). Yet, others predict that foreign equity will concentrate participation in major high-priority projects such as high-speed rail, shopping malls, and industrial parks (East Asian Executive Reports, 2/15/97). Obviously, different investors with different criteria will focus on different types of assets and returns. As the overall market in Taiwan provides risk diversification for these equity portfolios (Mei, 1999), Taiwan itself is too small for geographical diversification (Yang, 1999)<sup>53</sup>. Thus, variation in value increases across different sectors and location is inevitable as the amount of investment in each segment and quality depends on the level of investment from different types of investors with different risk and return criteria.

---

<sup>53</sup> In Yang's study, a hedonic model was adopted for regression analysis on return vs. geographical differences. The study found that the correlation is not significant. However, diversification by unemployment rates overall partially explains changes in rate of return (Yang, 1999).

Different types of investors will thus weight various risks differently. According to a study by Shun (Shun, 2001), risks facing a foreign real estate investor can be broken down into four: investment risk (the volatility of returns), currency risk (exchange rate volatility), political risk (explicit barriers to capital flows and exchange controls) and institutional risk (market maturity, liquidity, regulation and information flow). High levels of risks, especially in political and institutional risks, would likely chase away institutional investors (Shun, 2001). Long-term equity investors will compensate these factors by conservatively investing high quality properties to meet their objectives. As expected, realty investments and government involved projects with lower risks will likely to be acquired by institutional investors. High-quality office buildings and upscale residential projects, such as those located in Taipei, will be more attractive to these prospective investor (Pong, 2001). This phenomenon is especially highlighted in emergent countries where there is greater degree of political ambiguity and low market transparency (Shun, 2001).

Some properties are dealt in a deep discount. This creates an opportunity for foreign-financed ‘vulture funds’<sup>54</sup> to buy quality assets at low prices. Venture capital funds that are looking for a short turn around might even take advantage of currency exchange fluctuations as recently the New Taiwanese dollars has devalued against the US dollars<sup>55</sup>. The price might be even more attractive to real estate funds. Furthermore, as AMC release its property portfolios, these collaterals will be of limited appeal to institutional investors. Venture funds, on the other hand, will potentially acquire these assortments. However, only projects large enough would attract these funds. Small and lower quality properties at a less desirable location will be further

---

<sup>54</sup> See descriptions by Downs, Anthony, “Depressed Asian Market Invites Foreign Investments.” *National Real Estate Investor*, Volume 40, Issue 13, Atlanta: December, 1998, pp 38-39.

<sup>55</sup> During the week of July 16, 2001, exchange rate was US\$1 : NT\$35. As a year ago, the exchange rate was US\$1 : NT\$31. Source: [www.bloomberg.com](http://www.bloomberg.com).

devalued. The price difference between projects and location is expected to be widened since it might not be feasible for foreign investors to devote resources to small properties (Economic Daily News, 2/22/01).

### ***C) Foreign Business Investments and Developments***

Taiwan has long enjoyed various types of foreign investment and there is no doubt that this trend will continue. Technology, manufacturing, and import/export industries have exploded despite Taiwan's political situation (Lee, 1990). As Taiwan joins WTO, the volume of business and transaction is expected to increase. Taiwan's plan to become the Asia-Pacific regional operations center (APROC)<sup>56</sup> will require the government to strengthen the legal and physical infrastructures in Taiwan. Most importantly, in order to compete with Hong Kong and Singapore as the main channel of investment into the Mainland (Darwent, 1999), Taiwan will need to strategize its policies with Beijing to further ease tension between the two entities. The recent announcement on the possibility of establishing the three links has boost local and foreign investors' confidence alike. Recently, the news on China acquiring the rights to host the 2008 Olympics further complements the hope for peace between the straits. Taiwan's government and media welcomed Beijing's 2008 Olympic games victory as a chance for the island to ensure peaceful relations and improve business ties with China (Low, 2001).

---

<sup>56</sup> Taiwan's aim is to further encourage multinational corporations and local enterprises to invest in Taiwan and establish their bases there for operations in the Asia-Pacific market. There are six specialized operations centers being emphasized and developed by the government: 1) Manufacturing, 2) Sea Transportation, 3) Air Transportation, 4) Financial, 5) Telecommunications, and 6) Media Center (the Ministry of Economic Affairs, IDIC, 2001, Chapter 16).

The outlook is positive. Foreign investments are likely to increase in the coming years. Real estate and peripheral businesses will thus benefit tremendously. Historically, these companies and facilities have concentrated only in several cities in Taiwan. This high level geographical clutter of these foreign businesses, however, has profound impacts on how land and property value will fluctuate (Lo & Yeung, 1996). For example, the Agricultural Land Release Act mentioned in Chapter III will inevitably increase supply of land as the restriction on rural land use and ownership are relaxed. Political pressure and increase in demand, reinforced by liberalization of joining WTO, agricultural land conversion rush could depress land value even more. Success developments will only concentrate in specific locations based on demand. Majority of rural land will be left out by the market. Foreign investments, which now are expected to increase, usually congregate at large metropolitan areas or science or industrial parks, where property values are already high. Thus, as supply of rural land increases, a larger differentiation in value between urban and rural land is expected (Hua, 2000). The disparity of prices between locations and concentration of land value will at least continue as a result of the combination of relaxation of both agricultural land and foreign investment policies.

Another concern as an effect of the open trade policies is that firms and factories in Taiwan are moving out as well to take advantages of lower production costs in other regions, especially China and Southeast Asia (China Post, Feb, 17, 2001). Taiwan has increasingly invested in China. Its approved applications towards China in year 2000 doubled in dollar amount as compared to the same period of the year before<sup>57</sup>. The severity of over supplied construction and land will thus be magnified as domestic demand might further decline.

---

<sup>57</sup> Between January and December of 2000, the amount of 'indirect' investment in China from Taiwan has been US\$2.6 billion, which represents an increase of 108.11%, compared to the same period of the previous year (Ministry of Economic Affairs, "Statistics on Overseas Chinese and Foreign Investment." Taipei: Investment Commission, December 2000).

As Taipei might become an international mega-city (Lo & Yeung, 1996), with the effects of overbuilding and diminishing local demand, the rest of Taiwan will only benefit slowly from the influx of foreign business and development investment. Industrial parks will seem to continue to grow while resorts and shopping centers development will sprinkle among the island. Nevertheless, the positive effects on real estate of foreign business and development will only trickle down to the overbuilt and rural areas in years.

#### ***D) Impacts on Local Businesses***

Despite the probable price fluctuation caused by upcoming foreign investment, these potential transactions provide exciting opportunities to the local peripheral real estate services industries. The recent passed appraisal and brokerage regulations<sup>58</sup> allow the industry to react to changes in a more organized fashion. Benchmarks in the overall industry will evolve to a global level. The opening of financial services industry into Taiwan will also generate more competition, as the local firms will need to adopt international practices and business standards. Expectation of both consumers and service providers are changing. Foreign investment into the market will not only create monetary impact, but also technological, procedural, and organizational changes in the industry alike.

While the real estate services firms generally look forward to more activities in the industry, established landowners at the prime location also will gain from the advantages of more transaction and demand in those regions. These larger landowners or developers, such as sizeable

---

<sup>58</sup> Regulations on real estate brokerage was passed on 1/15/1999. Regulations on 'property appraiser standards' was announced on 10/4/2000 (Pong, 2001, page 327-329).

local conglomerates and businesses<sup>59</sup>, who have entered the real estate market very early, has a very low price base when they acquired these properties. These real estate assets might not only reside at good locations, but also are recognized buildings that bring in steady income stream (Business Times, 5/21/2001). Furthermore, large projects require thick capital base, which only the conglomerates and the big players have the ability to gather. Large projects are thus predominantly owned by these well-known companies. Since these corporations usually have enough financial strength to weather the recent economic turbulence, as the overall value in the real estate market increases, their properties will only benefit while rent and price swell in certain niches. According to Cathay Life, Inc., foreign funds and businesses are just another player in the market. The amount of impact might be minimum during the initial years<sup>60</sup>.

Small to median developers and banks, however, probably will experience some of the negative side of the shocks. After the relaxation of the Banking Laws in 1993, many smaller banks aggressively discharged loans to risky projects. Developers were also encouraged by the economy boom and relative cheap capital, and pressure from FAR regulation enforcement to simultaneously move forward with these projects. Larger banks and developers, who were traditionally more conservative and well established, already had the advantage to compete with smaller companies in terms of costs of capital. Thus, during the recent economic downturn, the smaller and less conservative banks were wiped out or consolidated. Projects that were aggressive in the investment assumptions thus became the main targets of AMC and the RTC, whose value will likely to be further depressed. As many of these properties are in the central and southern Taiwan, where realty is severely overbuilt, the upswing from foreign funds might

---

<sup>59</sup> For example, Cathay Life Inc., Hontai Group, and ShinKong Life Insurance are the three largest land owner in Taipei (Business Times, 5/21/2001). Other large conglomerates include President Inc., Far Eastern Inc., Taiwan Sugar, etc. just to name a few.

<sup>60</sup> As per Mr. Philip Chen, General Manager, Real Estate Department, Cathay Life Insurance Co., Ltd., Taipei, 5/28/01

not reach those markets immediately. Since the overall prices are depressed by AMC, these local and usually small banks and developers will likely to experience further asset devaluation.

#### ***E) Securitization of Real Estate Assets***

The securitization of real estate assets in Taiwan has been under discussion for several years. Several articles have discussed the benefits such as liquidity, risk sharing, resources utilization, and popularization of this financial vehicle (Yang, 1999; Liao, 1999; Pong, 2001). The securitization of both equity, such as the real estate investment trust (REIT) structure, and of debt in the secondary markets, such as mortgage backed securities, have being considered. Thus far, all the risk and profit sharing mechanisms adopted by real estate developers in Taiwan all involved the distribution of ownership rights (Chou, 2000). Although some have succeeded, many companies have failed due to lawsuits and financial issues (Pong, 2001, page 147). One of the main reasons why many of these projects did not work was the incompleteness of legal framework to support these financial structures.

As an experiment, the Urban Renewal Act<sup>61</sup> mentioned in Chapter III allows the formation of trusts for gathering funds (Liao, 1999). The development processes of these public projects are expected to take a long time. The government thus hopes by allowing securitization of these soon to be privatized revitalizations, the provided liquidity and appreciation of the shares in the future will thus achieve the financial goals of the developers. Even though the regulations on trusts,

---

<sup>61</sup> Published in May of 1999, the subsections 50 and 51 of the 'Urban Renewal Act' specified that the trust company would be a closed fund with only up to 25% of the funding to be acquired by selling shares (Pong, 2001, page 145). More details and regulations are still under discussion in the Legislative Yuan as of 2001.



legal logistics, and shareholder rights are not completed yet, Urban Renewal Act is the first formal initiative on real property securitization.

As global economy enters Taiwan, asset flexibility will become an important factor to attract foreign investors. The value on liquidity and free of related legal responsibilities could be a big factor in investors' expectation and risk-adjusted returns. The inevitable pressure of AMC to breakdown creditorship of the collaterals to global investors to minimize the downward spirals of auctioning non-performing assets will further push the movement towards asset securitization. Foreign firms' experience and expertise, along with the need for liquidity in the global market, will assist with the structuring of both equity and debt vehicles in Taiwan.

In the meantime, Taiwan's legal framework will need to be refined to take advantage of the trend of real asset securitization in the near future (Pong, 2001, pp 144-148). Regulations on the formation of trust companies, taxes, banking restrictions, tenant legal rights, responsibilities of the shareholders, appraisal system, and reporting standards, et cetera all need to be amended to provide the foundation of attracting interests. The real obstacle, however, is the industry itself. Even though smaller companies can thus use the public market to acquire funding and compete with the large conglomerates, the incentives for Taiwanese companies to sustain a real estate securitization market are not supported by the market conditions and industry structure.

First of all, transaction costs in the property market are relatively low (Chou, 2000). Entering and existing the market is not a costly event. Next, the current tax system does not penalize capital gains severe enough for companies to set up shelters, such as REIT's, to defer taxable gains. In the residential sector, although the trend is fading, the pre-sale system has helped developers to acquire equity and minimize cost of capital. Thus, gathering equity has not been an issue for smaller residential developers. Furthermore, because historically the property value has been so

high, the return on the income stream of commercial or residential properties is low compared to returns on other more conservative investments, such as long term certificate of deposits (Yang, 1999). The profit margin in the domestic market and valuation system are too low. Lastly, the pride of owning a piece of tangible real property still influences some domestic investors decision (Pong, 2001). The transformation of investment criteria and attitude will expedite as more international players and investment ideas enter the market.

In order to have a sustainable property asset securitization market, the whole real estate industry will need to alter. Standards on architectural quality, property and facilities management, appraisal and valuation methods, and asset security rating are only a few examples of what need to advance. Opening foreign investment will catalyze the revolution and critically examine the feasibility of real estate securitization in Taiwan in the coming years.

#### ***F) More on Market Information Transparency***

Taiwan, although already has a long history of trading and investing in the global markets (Lee, 1990), its real estate industry has been relatively closed. Lack of information transparency in the real estate sector thus could be an impediment to foreign investors. As global markets develop, established investors are calling for increased transparency to reduce the risk of mispricing and to improve the reputation and credibility of the markets. In short, international property investment depends on the ability to achieve immediate and full access to market information that can be verified and confirmed in a shorter time.

According to Shun's paper (Shun, 2001), in a study by Prof Stephan Lee of University of Reading, the maturity and transparency of developed and emerging property markets in Asia were measured and rated. The realty industry of China, Vietnam, Indonesia, South Korea and the Philippines are still at the emerging stage of maturity and display the least transparency. While the markets of Taiwan, Malaysia, and Thailand are described as emergent, as they still display low to semi-transparent levels of transparency<sup>62</sup>. Therefore, on the rating of transparency along, Taiwan's real estate markets are perceived as unsuitable for institutional investors and only of interest to individuals willing to take a higher risk for high return in a short period of time (Shun, 2001). As an added risk to the already complicated political and economic uncertainties, low level of market transparency creates higher return volatility. Thus it may be felt that there is a greater investment risk from emerging markets than from developed countries. According to Chapman, Dutt, and Bradnock (1999, pg 24), Taiwan has moved beyond the 'newly industrialized economy' status and into the 'developed' phase. However, the property markets have been left behind.

Obviously, the transformation will take time. In order to compete in the global area, it is absolutely essential for Taiwan's real estate industry to strengthen related standards and policies. Along with information transparency, the industry's construction specifications, reporting methods, valuation criteria, brokerage policies, all will need to eventually benchmark against international practices. The joining of WTO and the gradual inflow of foreign funds should positively provide an uplift of the non-monetary topics in the real estate markets.

---

<sup>62</sup> In contrast, the markets of Hong Kong, Singapore, New Zealand, Australia, and Japan have much more established markets and all show good to high levels of transparency (Shun, 2001). According to Shun, this suggests that these markets are likely to offer the stronger form of investment opportunities to institutional investors (Shun, 2001).

## **V. CONCLUSIONS AND SUMMARY**

Providing the background information discussed thus far, both internal and external factors will further differentiate real estate values across markets. These forces can be summarized into seven major sources:

- 1). The government has provided some incentives to direct foreign investment into certain categories, such as public projects, industrial parks, large shopping centers, etc. However, these policies only reinforce certain sectors and do not really help areas or products that really need help. Residential, agricultural, and offices in central or southern Taiwan will be left out of the revitalization and development opportunities. Foreign investors will pick and choose their merchandizes and the benefits will not be homogenized across the markets.
- 2). The slowing economy will not absorb those oversupplied products in certain sectors in a short enough period of time to lift prices. Economic uncertainty has made business and banks more cautious on commitments. As demand drops and market shrinks, certain markets and locations will probably experience more severe value decline.
- 3). Agricultural Land Release Act will have a tremendous impact on land supply in rural areas. Landowners will try to rush to rezone for development possibilities. However, only certain spots will likely to enjoy development activities while many others will probably be ignored by the market. Oversupply of land will further push prices of areas where there is no foreseeable demand.
- 4). The opening of three links with China will also allow Taiwanese firms to directly move into China to benefit from cheaper production costs. While the headquarters, which usually reside in Taipei or other major cities, are not likely to be moved, factories and warehouses from other less

developed parts of Taiwan are predicted to relocate. This will create more vacant properties in certain sectors and locations, which will further push down land value in those areas.

5). It is inevitable that foreign companies will probably concentrate in larger metropolitan areas or around industrial parks. After the joining of WTO, foreign offices will be drawn together by convenience and synergy. Demand of those areas will rise, while left rural areas behind.

6). AMCs will create a strong instability initially as the values of non-performing collaterals are beat down. Since a large portion of these properties is in central and southern Taiwan, prices will be further depressed. In contrast, non-performing collaterals in Taipei and other larger metropolitan areas still hold their worth because of the local market conditions.

7). The degrees of local politics influences and market transparency are different in various areas due to different experience levels of dealing with foreign entities and international valuation methods. Diverse practices standards will also push away investors. Higher market transparency means lower risks. Foreign funds will be more likely to investigate more global markets, such as the city of Taipei.

To sum up, as the initial impact will polarize values across the markets, the long-term hope is that global capitals will eventually lift the depressed industry. The influencing force of the foreign investment will unlock the historically relatively closed real estate markets in Taiwan. Nevertheless, as presented in this thesis, the economic conditions, market and policy dynamics, business practices, and political ambiguity in Taiwan will be calculated against the relative illiquidity nature of real estate investment.

More pessimistic views on Taiwan's economy are best summarized in the latest issue of Time's Asian edition (Asia Pulse, July 18, 2001), which reported that Taiwan might become mired in a Thai-style financial crisis. The articles noted that because of the sharp fall in Taiwan's real estate prices has turned more than 20 per cent of bank loans into bad debts. The main loan recipients

for Taiwan banks are real estate firms. The magazine concluded that Taiwan will face the largest negative growth in its economy since the 1970s (Asia Pulse, July 18, 2001).

Overall, slowing population growth (Price Waterhouse Coopers, 2000) and increasing unemployment rate (Hong Kong Economic Journal, December 19, 2000) will attribute to growth in the island's real estate industries. Even though the Taiwanese government has tried to lift the real estate market by releasing preferential loans and relaxation of policies, the short-term effect seems to be minimum. In the long run, regarding to fighting the financial crisis and rebuilding economy, Taiwan's government is receiving mix criticism. Researchers at the Japanese Nomura Research Institute reported that Taiwan is going through a small-scale financial meltdown while the government is taking the wrong approach to dealing with the issue. (Taiwan Economic News, 2/26/01). Nomura believes that the Taipei government is making the same mistakes as in Japan and using huge amounts of government and bank funds to support the stock market, financially troubled enterprises, traditional industries, real estate market, foreign exchange rate, and financial institution. A structural reform of the financial system is what is going to save Taiwan in the long run. The new government's political promise of not raising tax rates and not to make public the data concerning the confidence index of consumers were severely criticized. The researchers also noted that Taiwan has the highest level of debt to GDP ratio among Asian nations<sup>63</sup>. The banking systems over-reliance on the realty market, stocks, and enterprises in the traditional industries will cause the situation even worse. Since many companies and factories, especially in the central and southern Taiwan, are planning to move to low-cost Mainland China (Hsieh, 1997)<sup>64</sup>, the government's pressure on banks to continue lending to these enterprises will only make situation worse as domestic real estate demand is leaving and collaterals are becoming empty

---

<sup>63</sup> According to Nomura, Taiwan society has excessively raised debts, which account for 160% of the island's gross domestic product (Taiwan Economic News, 2/26/01).

<sup>64</sup> In Hsieh's study (1997), for Taiwanese investors, political environment factors are of only marginal importance for domestic decisions, they are of primary consideration in overseas investment decisions (Hsieh, 1997).

(Taiwan Economic News, 2/26/01). This potential migration of Taiwan's manufacturing and businesses to Mainland China is expected to leave much agricultural and industrial land vacant throughout the island presenting a challenge to land regulators and landowners alike.

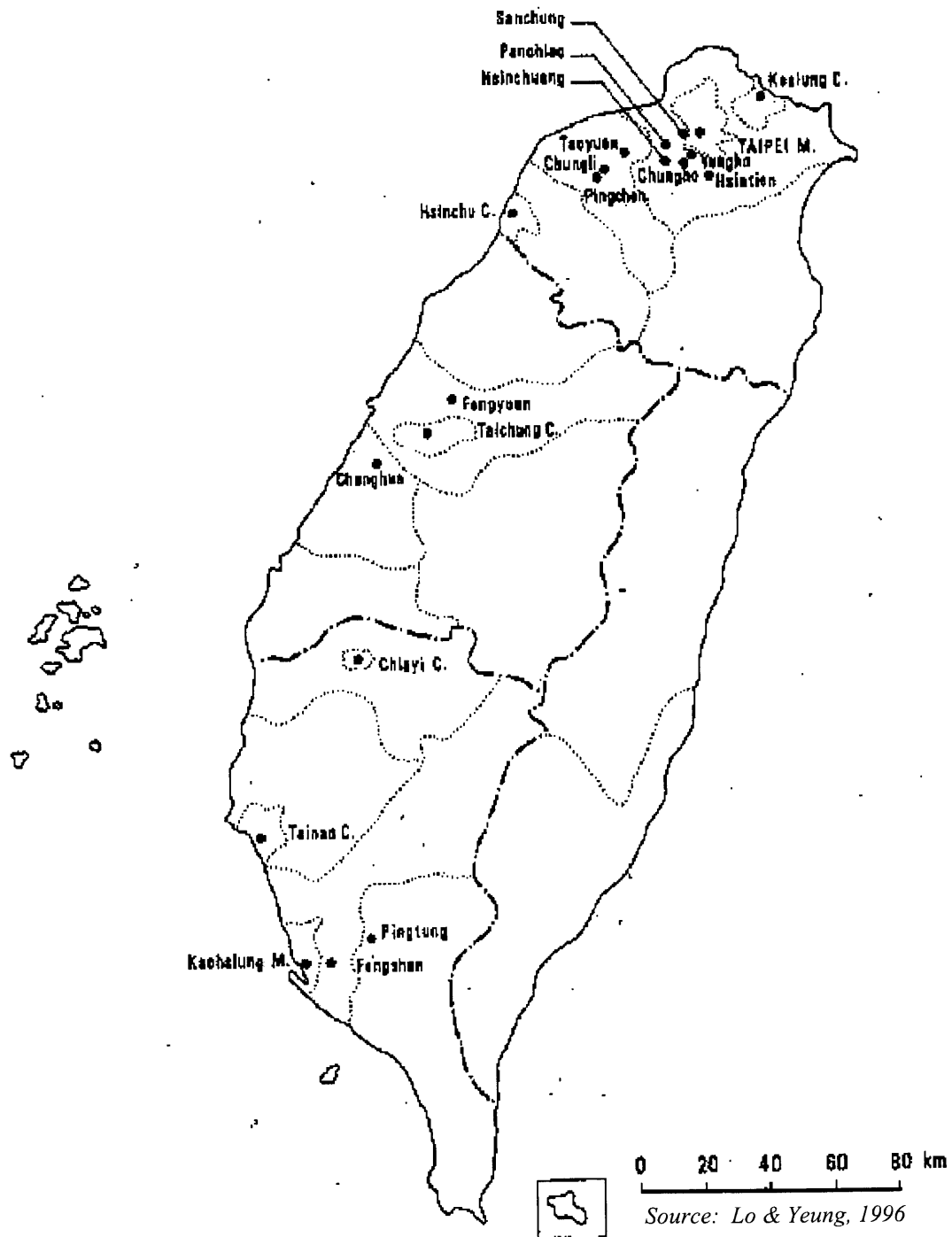
Nevertheless, the positive forces of joining WTO will hopefully offset the demand shifts as foreign businesses enter the various opportunities. After trade links are established with China, business opportunities are expected to increase, and thus partially rejuvenate the real estate markets. The concentration of the demand, in terms of geography and product segments, will only benefit the largest metropolitans. While venture capital funds and AMC transactions further depress real estate value in central and southern Taiwan, institutional investors are calculating the risk factors and pick only A-quality buildings in the markets. As some government officials desperately trying to revitalize the property markets by proposing further land incremental tax cuts (Taiwan Economic News, 5/14/01)<sup>65</sup>, Taiwan's real estate industries as a whole need to transform to a different level. The global arena will hopefully rescue Taiwan's real estate industry's structural problem in the long run.

---

<sup>65</sup> According to the Taiwan Economic News, the MOF will forward a draft revision of the land tax law to the Executive Yuan for approval in the second half of the year. The MOF originally planned to cut the rate by 10 percentage points on all three major brackets of 60%, 50% and 40% to 50%, 40% and 30%, respectively (Taiwan Economic News, 5/14/01).

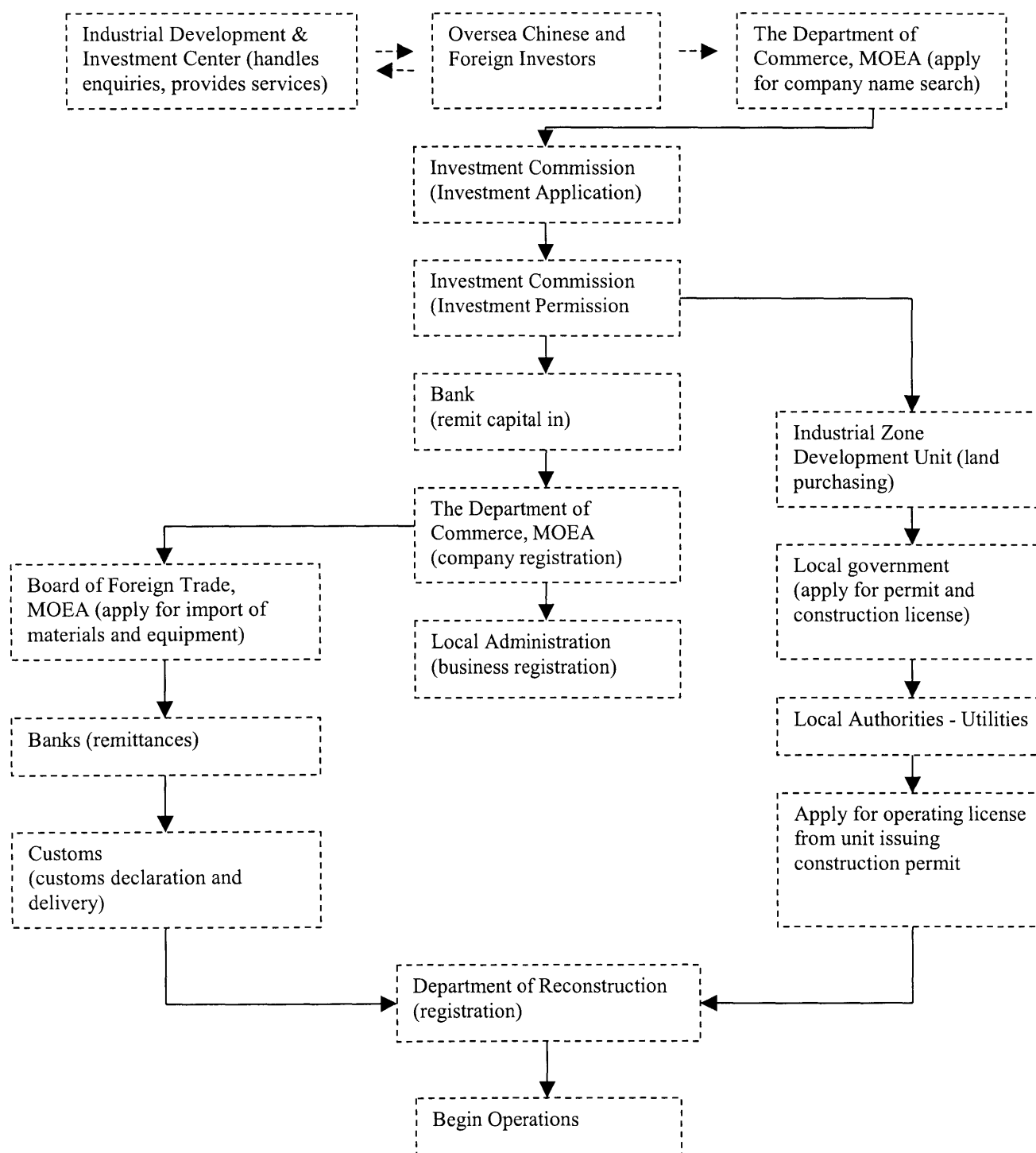
APPENDIX A – Map of Taiwan

MAP OF TAIWAN





## APPENDIX B - INVESTMENT FLOW CHART FOR ORDINARY AREAS



Source: International Development and Investment Council, Ministry of Economic Affairs, 2001

## **LIST OF DATES OF INTERVIEWS**

Chang, Vicent, Assistant Vice President, SinoPac Leasing Corporation, Taipei, 5/30/01

Chen, Ming-Chi, PHD, Assistant Professor, National Sun Yat-Sen University, Kaohsiung, 6/5/01

Chen, Ting Jean, Manager, International Property & Finance Ltd., Taipei, 6/1/01

Chen, W. Philip, General Manager, Real Estate Department, Cathay Life Insurance Co., Ltd., Taipei, 5/28/01

Hart, Michael, International Business Development, Investec Ltd., Taipei, 5/30/01

Lee, Shu-Chun, Project Finance and Development Department, China Development Industrial Bank, Taipei, 5/30/01

Shou, Hong, Manager, Jiang Jen Business Co. Ltd., Kaohsiung, 6/6/01

Tsai, Shi-Hong, Investment Department, China Development Industrial Bank, Taipei, 6/1/01

Tu, Jenn-Hwa, PHD, Associate Professor, National Taiwan University, Taipei, 5/31/01

Wang, Calvin, President, Jones Lang LaSalle Taiwan (former Investec Ltd.), Taipei, 5/30/01

Wu, Z. N., Researcher, Land Bank of Taiwan, Taipei, 5/31/01

Yang, Hong-Chein, Department of Land Administration, Ministry of Interior, Taipei, 5/29/01

Zheng, Shu-Ch'ng, Department of Land Administration, Ministry of Interior, Taipei, 5/29/01

### ***Teleconference Interviews***

Bednar, George David & Ladha, Anupam, Morgan Standley Dean Witter Inc., Hong Kong, 6/27/01

Ch'ng, David, The Real Estate Association of Republic of China (TREAOROC), 5/16/01

Chuang, N.C., Industrial Development and Investment Center (IDIC), Ministry of Economic Affairs, 5/14/01

Hong, C. S., Department of Land Administration, Ministry of Interior, 5/29/01

## BIBLIOGRAPHY

(Please note that literatures in Chinese are listed in Wade phonetic symbol system)

Allen, R. Stanley, "West Germany Opening as 1992 Approaches: Opportunities Surf", *National Real Estate Investor*, volume 32, Issue 2, Atlanta, Feb 1990, pp 49-50.

American Institute of Taiwan, "FY 2001 Country Commercial Guide: Taiwan", Bureau of Economic and Business, Jul 2000.

Asia Pulse, "Taiwan Growth will Rebound in Q4, Says Official", Taipei, July 18, 2001.

Baldwin, Robert E., Chen, Tain-Jy, and Nelson, Douglas, *Political Economy of U.S. – Taiwan Trade*. Ann Arbor: The University of Michigan Press, 1995.

Berry, James and McGreal, Stanley, *Cities in the Pacific Rim, Planning Systems and Property Markets*. New York: University of Ulster, UK, E&FN SPON, 1999.

Bryson, William, Huang, Jack, et al. "Taiwan: Mergers and Acquisitions Activity: A Sectoral Overview"; *International Finance Law Review-Mergers & Acquisitions Yearbook 2001*, London; 2001, pp 97-101.

Business Korea, "Opening Korea's Real Estate Market", and; "Questions and Answers About Korea's Real Estate Market Opening", Vol. 15, Issue 7, Seoul; Jul 1998, pp 22-23, 26-27.

Business Korea, "Opening Up The Real Estate Market", Vol. 15, Issue 5, Seoul; May 1998, page 35.

Chan, Carol, "T'ai pei shih chêng fu yu yao mai t'u ti lê", *Business Times*, no 28, 5/21/2001, pp. 40-41.

Chan, M.Y., *T'ai wan fang ti ch'an hê shih hui chún?* Taipei: China Trust Commercial Bank, Economic Research Division, 1999.

Chan, P. Fang, "Tung ya kuo chia tui wai tsü chiao ts'o chê ai hên ch'ing ch'ou", *China Times*, Taipei, May 6, 2001.

Chang, Chin-oh, "Planning and integration of the Housing Information System", Center for Real Estate Research, National Cheng Chi University, 1999.

Chang, Horng Jinh and Lee, Yueh Hua, "The Dynamic Relationship Between House and Stock Market Prices in Taiwan: An Empirical Study." *International Journal of Management*. Vol 17 No. 2, Jun 2000.

Chang, Chin-Ho and Lin, Chien-Yuan, "Taipei – Planning Systems and Property Markets", New York: E&FN Spon, 1999.

Chapman, Graham P., Dutt, Ashok K., and Bradnock, Robert W., *Urban Growth and Development in Asia, Volume II: Living in the Cities*. Aldershot: Ashgate Publishing Ltd., 1999.

Chen, Min-Chiang James, "Financial Reforms in Taiwan: Opportunities and Challenges towards Liberalization and Internationalization", *Thesis*, Alfred P. Sloan School of Management, Massachusetts Institute of Technology, Cambridge, May, 1995.

Chen, Wei-Lun, *The Comparison of Land Trust System and Urban Renew Investment Trust System*, Taipei: National Taiwan University, 2000.

China Economic News, "Insurers question real effects of easing investments in realty", Taipei, January 8, 2001.

China Economic News, "Legislative Panel Okays Rules for Foreign Investment in Realities", Prime News Section, Taipei, April 27, 2001.

China Post, 'Thirty Years to Consume House Vacancies in Taiwan', Taipei, April 28, 2001.

China Post, 'WTO Entry To Lift Taipei Office Market', Taipei, February 17, 2001.

Chinatrust Real Estate Co. "Real Property Tax Brochure", Taipei: Chinatrust Real Estate Co., Nov 1999.

Chin, Pei-Hsiung, "Housing and Economic Development in Taiwan", Working Paper No. 483, Institute of Urban and Regional Development University of California, Berkeley, Jun 1988.

Chou, Tien Chang, "Real Estate Securitization", *Taipei Security Plaza*, Taipei, volume 30, 2000.

Colliers Jardine Inc., "Asia Pacific Property Trends" Colliers Jardine Research, January, 2001.

Colliers Jardine, Inc., "Taipei Office Market - Market Conditions & Forecast", Colliers Jardine Research, Taipei, April, July, October, 2000, January, April, 2001.

Colliers Jardine, Inc., "The Impact of Asset Management Companies on Taiwan Real Estate", Colliers Jardine Research, Taipei, April 2001.

Copper, John F., *Taiwan – Nation-State or Province? Third Edition*. Oxford: Westview Press, 1999.

Darwent, Charles, "Scraping the Sky", *Chief Executive*, Issue 141, New York: Jan/Feb 1999, Pg 17.

Downs, Anthony, "Depressed Asian Market Invites Foreign Investments", *National Real Estate Investor*, Volume 40, Issue 13, Atlanta: December, 1998, pp 38-39.

East Asian Executive Reports, "Investors Will Be Able To Own Improvements On Land In Harbor Areas", Volume 21, Issue 3, Washington: Mar/Apr 1999, pp 8-9.

East Asian Executive Reports, "Taiwan Eases Foreign Investment Restrictions", Volume 18, Issue 7, Washington: July, 1996, pp 6-8.

East Asian Executive Reports, "Taiwan Opens Real Estate to Foreign Investment", Volume 19, Issue 2, Washington: Feb, 1997, pp 5-6.

Ellsworth, David G and Capaldi, Michael D, "Sun and Profit: Investing and Developing in Mexico", *Journal of Property Management*, Vol. 58, no 1, Chicago, Jan/Feb 1993, page 19.

Ferdinand, Peter, *Take-Off for Taiwan?* London: Royal Institute Of International Affairs, 1996.

Hong Kong Economic Journal, 'Taiwan reports unemployment rate of 4.6% for September-November', December 19, 2000.

Hsieh, Chao-I, "A Note On Corporate Overseas Investment Decision Priorities of Taiwanese Direct Real Estate Investors", *The Journal of Real Estate Research*, Volume 13, Issue 3, Sacramento: 1997, pp 359-368.

Hua, Chang-I, "The Sticky Land Price in Taiwan: Its Cause, Effects, and Future", M.E. Sharpe, Inc., New York, 2000.

Huang, C. R., "Yen chiu fa chan" Report #12, Taipei: Taiwan Cooperative Bank, 2000.

Huang, Pang, "K'ai fang wai tsü t'ou tsü kuo nei fan ti ch'an – Yeh ch'ên wei pu fen shou hui", Market Focus News, Taipei, February 19, 2001.

Ingves, Stefan, "The Role of Asset Management Companies in Bank Restructuring", NPL Forum of Asia-Pacific, Seoul: Nov 2000.

Investec Limited Co., "Investec Property Commentary." Taipei: Investec Ltd Co., March, April and May 2001

Lee, Chih, C., "Market Analysis of Office Real Estate in Northern Taiwan", Central Trust Real Estate Report, no. 65, Taipei, May 1, 2001, pp 6-7.

Lee, Ping. Hui., "Wai tsü hsiang chung chung nan pu fan ti ch'an", *United Evening News*, Taipei, April 13, 2001.

Lee, Sheng-Yi, *Money and Finance in the Economic Development of Taiwan*. London: The MacMillan Press Ltd., 1990.

Li, Si-Ming and Tang, Wing-Shing, *China's Regions, Polity, and Economy – A study of spatial transformation in the post-reform era*. Hong Kong: The Chinese University of Hong Kong, 2000.

Liao Hsien-Hsing, "The comparison of land trust system and urban renew investment trust system", Taipei: National Taiwan University, 1999.

Lin, R. Yang., "Wai kuo jên Chiang k'o tsai tái t'ou tsü pu tung ch'an", *Economic Daily News*, Taipei, April 26, 2001.

Lin, Y. Wen., "Wai tsü sung pang", *Taiwan Liberty News*, Taipei, February, 15, 2001.

Ling, Ta-Chun, *The Study of Mortgage Securitization – From Bank Managers' Viewpoints, and the Effect on Bank Business Risk*, Taipei: Chun-Yuan University, 2000.

Lo, Fu-Chen and Yeung, Yue-Man, *Emerging World Cities in Pacific Asia*. New York: United Nations University Press, 1996, pp 179-217.

Low, Alan, 'Asia-Pacific Eyes Economic Fillip From Beijing Games Win', Hong Kong, *Agence France Presse*, July 15, 2001.

Mei, Jianping, "Asian real estate in a portfolio context: Long term opportunities." *Real Estate Finance*, Vol 15, Issue 4. Winter 1999. pp 85-94.

Mera, Koichi and Renaud, Bertrand, *Asia's Financial Crisis and the Role of Real Estate*. New York: M.E. Sharpe, Inc. 2000.

Ministry of Economic Affairs, Taiwan, "Investment Environment in the Republic of China." Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 2001.

Ministry of Economic Affairs, Taiwan, "Statistics on Overseas Chinese and Foreign Investment." Taipei: Investment Commission, Ministry of Economic Affairs, Dec 2000.

Ministry of Interiors, Taiwan, "Collating Urban Land Price Indices of Taiwan and Fuchien Areas" Land Administrations, Ministry of Interiors, Taipei, Mar 2000.

Ministry of Interiors, Taiwan, 'Land Regulations', Land Administration, Document Date: 4/6/2001, Document Number: Taiwan 2001, #020563

Ministry of Interiors, Taiwan, "Fa chan hsü k'o chih shih wu yün tso chih yen chiu." Taipei: Ministry of Interiors, 2000.

Ministry of Interiors, Taiwan, "Pu tung ch'an ching chi yeh kuan li t'iao li." Taipei: Ministry of Interiors, Feb 1999.

Money Management Monthly, "T'ai wan fang chia hai hue tsai ta tui ch'ê ma?", *Money Management Monthly*, Taipei, March 12, 2001

Peacock, Christopher A., "The Globalization of Real Estate Companies", Wharton Real Estate Review, Volume IV, no. 1, The Wharton School, University of Pennsylvania, Spring, 2000.

Pong, P.Y., *Min chin tang chih ch'eng hsia tê t'ai wan fang ti ch'an*. Taipei: Hanlu Press Inc. 2001.

Population Census Office, "1995 Housing Survey", Executive Yuan and Directorate General of Budget, Accounting & Statistics, Executive Yuan, Taipei, 1996.

Price Waterhouse Inc., *Doing Business in Taiwan – Information Guide*, Price Waterhouse Global Inc., 1996.

Price Waterhouse Coopers, "Asia Banking and Capital Markets Online Handbook", Price Waterhouse Coopers, 2000.

Rabianski, Joseph S., and Black, Roy T., "An International Perspective on the Importance of Real Estate Concepts and Topics," *Journal of Real Estate Practice and Education*, American Real Estate Society, Volume 2, no 1, 1999.

- Rigger, Shelley, *Politics in Taiwan – Voting for Democracy*. New York: Routledge, 1999.
- Rubenstein, Eric C, “Foreign Real Estate Investment in Spain”, *Real Estate Review*, Vol. 20 Issue 2, New York; Summer 1990, pp 85-90.
- Shun, KL Christopher, ‘My Space: Risk Factors of Asian Property Investment’, *The Edge*, Malaysia, July 16, 2001.
- Shou, Y. Chin and Ho, Ming Kuo, “Tu ti fa pu f’an t’ou wen sh’u zheng t’sou an”, *United News*, Taipei, April 26, 2001.
- Taiwan Economic News, “Foreign Institutional Investors Eye Real Estate Markets”, Taipei, April 15, 2001.
- Taiwan Economic News, “Nomura Research: Taiwan’s Financial System Worse Than South Korea”, Taipei, February 26, 2001.
- Taiwan Economic News, “Taiwan's MOF Halts Rate Cut On Land Value Incremental Tax”, Taipei, May 14, 2001.
- Tsai, Hui Fang, “Fang ti ch’an shih ch’ang wai tsū hang ch’ing, hu tsū yü ch’u”, *China Times*, Taipei, May 7, 2001.
- Tsai, Hui Fang, “Kuo shou Chiang Chia ma t’ou tsū shang yeh pu tung ch’an”, *China Times*, Taipei, May 17, 2001.
- Tsai, Hui Fang, “Ta T’ai pei ti ch’ü fang chia p’o lan pu hsing”, *Commercial Times*, Taipei, June 11, 2001.
- Tsai, H. H., “Globalization and the urban system in Taiwan”, Tokyo: The United Nations University, 1996.
- Tu, Jenn-Hwa and Schive, Chi, “Determinants of Foreign Direct Investment in Taiwan Province of China: a new approach and findings” *International Finance Investment and Economic Development*. Taipei: Wha-Tai Press, 1996.
- White, Michael, “U.S. plays catch up in Vietnam”, *World Trade*, Vol 9, Issue 6, Troy Jun 1996, page 67.
- Wiemann, Earl, “NT\$320 Billion – And Then What?” *Economic Daily News*, Taipei, August 9, 2000.
- Wu, Lilian, “Foreign Real Estate Investors Keen on Taiwan Real Estate Market”, Taipei, Central News Agency, April 13, 2001.
- Yang, Chung-Hao, *Real Estate Portfolio Diversification Strategies in Taiwan*, Taipei: National Chun-Chang University, 1999.
- Yang, Younher, *Research on Real Estate Securitization Feasibility in Taiwan*, Taipei: Taiwan Evergreen Management School, 2000.

Yeh, Anthony Gar-on, 'Foreign Investment and Urban Development in China', The Chinese University of Hong Kong, Hong Kong, 2000.

Yeh, H. S, "Wai tsŭ t'ou tsŭ fan ti ch'an – Shou hsien yeh yu yi lŭ", *Economic Daily News*, Taipei, February, 22 2001.

Yeung, Henry Wai-chung and Olds, Kris, *Globalization of Chinese Business Firms*. New York: MacMillan Press Ltd., 2000.

Zheng, Kue. Shang., "Wai tsŭ tuan hsien chuan hsiang chin jung tsŭ ch'an ku", *United News*, Taipei, April 13, 2001.